Cambridge International AS & A Level

**Cambridge International Examinations**
Cambridge International Advanced Subsidiary and Advanced Level

**ECONOMICS** **9708/31**

Paper 3 Multiple Choice **October/November 2018**

**1 hour 15 minutes**

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

* 6 9 6 9 4 7 4 8 5 5 2 *

**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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CAMBRIDGE International Examinations

**1** Which statement is correct?

**A** External cost equals social cost minus private cost.

**B** Private cost equals external cost minus social cost.

**C** Social cost equals external cost minus private cost.

**D** Social cost equals private cost minus external cost.

**2** What is a negative externality from consumption?

**A** a new road that results in more sales at shops in the town centre

**B** a successful promotion of healthy eating that reduces days lost from work

**C** discharge of waste from a factory that damages fish in a local river

**D** increased popularity of smoking that increases demand on the health service

**3** Which type of efficiency is identified by price = marginal cost?

**A** allocative

**B** dynamic

**C** productive

**D** technical

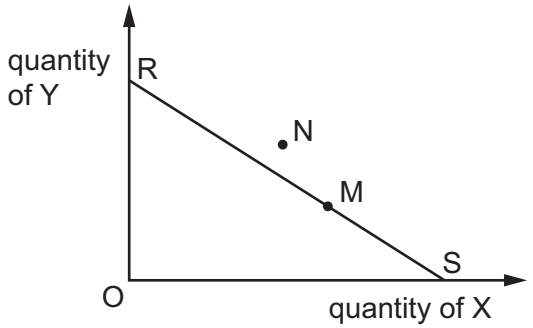
**4** A consumer can purchase two goods, X and Y, from a given income.

What will cause the consumer's budget line to make a parallel shift to the right?

| | consumer's income | price of good X | price of good Y |
|---|---|---|---|
| **A** | 10% decrease | 20% decrease | 10% decrease |
| **B** | 10% decrease | 20% decrease | 20% decrease |
| **C** | 10% increase | 10% increase | 20% decrease |
| **D** | 10% increase | 20% increase | 20% increase |

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**5** The line RS in the diagram shows the different combinations of goods X and Y that a consumer can afford with her present income.




The consumer's original equilibrium is at M.

What could explain a subsequent change in her equilibrium position to N?

**A** a change in her tastes

**B** an increase in the price of X and a fall in the price of Y

**C** an increase in the price of X and a smaller percentage increase in the price of Y

**D** equal percentage increases in her income and in both prices

**6** The table shows the total revenue and marginal cost of a firm at different levels of production.

| production (tonnes) | total revenue ($) | marginal cost ($) |
|---|---|---|
| 2 | 70 | |
| 3 | 120 | 15 |
| 4 | 160 | 20 |
| 5 | 190 | 25 |
| 6 | 220 | 30 |
| 7 | 240 | 40 |

Within which output range will the firm's profits be maximised?

**A** 2–3 tonnes

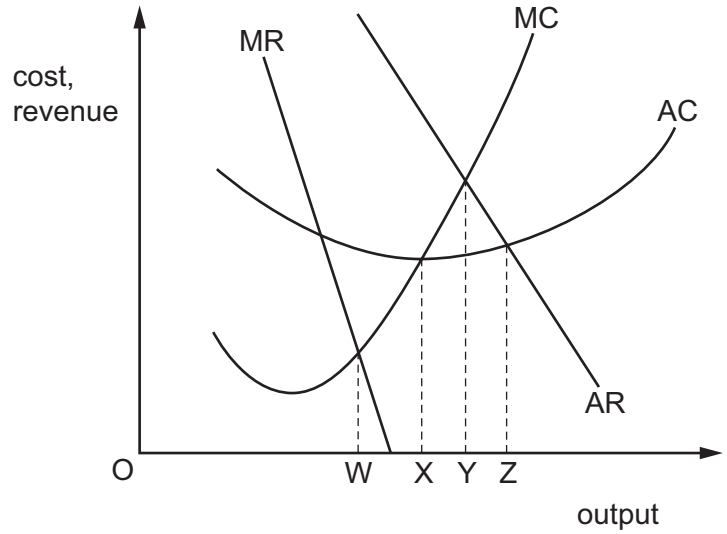
**B** 3–4 tonnes

**C** 5–6 tonnes

**D** 6–7 tonnes

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**7** The diagram shows a profit-maximising firm's cost and revenue curves.




What would be the increase in the firm's output if it was required to charge a price equal to marginal cost?

**A** WX **B** WY **C** XY **D** XZ

**8** What must be different between the consumers of a product to enable profitable price discrimination by the producer?

**A** levels of income

**B** price elasticities of demand

**C** the ages of the consumers

**D** time of consumption

**9** An example of forward vertical integration for a computer manufacturer would be a merger with

**A** another computer manufacturer.

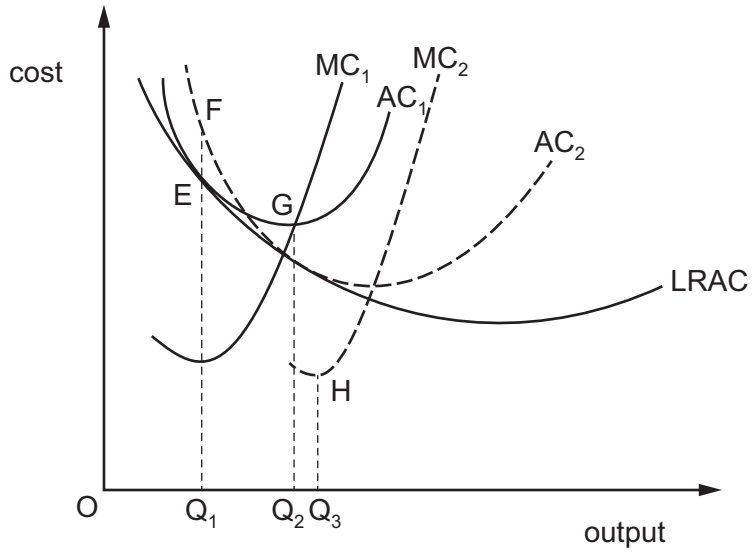
**B** a computer retailer.

**C** a silicon chip manufacturer.

**D** a software developer.

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**10** The diagram shows the short-run cost curves and the long-run average cost curve for a firm.




What can be concluded from the diagram?

**A** At output $Q_1$, point E represents a productively efficient position.

**B** At output $Q_1$, point F is preferred to point E because curve $AC_2$ represents economies of scale.

**C** Point G at output $Q_2$ is productively efficient in the long run.

**D** The biggest profits are made at point H at output $Q_3$, which is the lowest marginal cost position.

**11** A cartel has been successful in regulating output. However, recently it has shown signs of breaking up.

Which feature of the market could have caused this?

**A** an agreement that the cartel produces a homogenous product

**B** an increase in the number of small, independent producers of the good

**C** stable patterns of demand for the good

**D** trademarks, acting as a barrier to entry to the market

**12** What would be most likely to allow the survival of small firms in an economy?

**A** an increase in the cost of borrowing from commercial banks

**B** an increase in personal services as a share of GDP

**C** an increase in the rate of change of information technology

**D** an increase in the ratio of capital to labour employed in an economy

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**13** A private company operates a coal mine which employs 400 workers. The mining operations have polluted the environment and created external costs.

If the government intervenes, how could it internalise the externality?

**A** close part of the mine and import the coal

**B** levy an additional tax on the miners' wages equal to the external cost

**C** pay for the external costs of restoring the environment after mining

**D** place a tax equivalent to the external cost on the output the company produces

**14** What is an advantage of using tradable pollution permits to control pollution?

**A** Tradable permits are restricted to the firms to which they are issued.

**B** Tradable permits avoid enforcement costs.

**C** Tradable permits encourage the use of market forces.

**D** Tradable permits guarantee a zero level of pollution.

**15** Where might government intervention to raise the wages of a group of workers be justified in order to prevent their exploitation?

**A** in an industry that is protected by tariffs on imports from abroad

**B** in an industry when a trade union negotiates wages for the workers

**C** in an industry when the output is produced by a single firm monopolist

**D** in an industry when workers are employed by a monopsonist

**16** There is a decrease in the supply of female labour.

What will be the likely effect on male and female wages?

| | male wages | female wages |
|---|---|---|
| **A** | decrease | decrease |
| **B** | decrease | increase |
| **C** | increase | decrease |
| **D** | increase | increase |

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**17** Which criteria are used in official labour market surveys to determine whether a person should be classified as being unemployed?

| | eligible for receipt of unemployment benefit | actively seeking employment at the current wage rate | available to start work |
|---|---|---|---|
| **A** | no | yes | no |
| **B** | no | yes | yes |
| **C** | yes | no | no |
| **D** | yes | no | yes |

**18** To increase the number of cleaners at a local school from 10 to 11, the employer has to raise the hourly rate of pay from $3.00 to $3.25.

What is the marginal cost of labour per hour to the employer?

**A** $0.25 **B** $3.25 **C** $5.75 **D** $33.25

**19** What would result in a reduction in labour costs per unit of output?

**A** an increase in average earnings which is less than the increase in employment

**B** an increase in labour productivity which is less than the increase in average earnings

**C** an increase in output which is greater than the increase in labour earnings

**D** an increase in wage rates which is greater than the increase in output per worker

**20** Out of any addition to national income, 25% is spent on imports, 15% is paid in taxes, 10% is saved and the rest is spent on domestically produced goods.

What is the value of the multiplier?

**A** 2 **B** 2.5 **C** 4 **D** 10

**21** Which economic indicator uses the following three components to obtain a value between 0 (low) and 1 (high)?

- GNI per capita
- life expectancy
- education

**A** Happiness Index

**B** Human Development Index

**C** Human Poverty Index

**D** Measure of Economic Welfare

**22** What is **not** a possible benefit to a developing country of a multinational company investing in a new factory in that country?

**A** acquiring improved technology

**B** better training for the workforce

**C** extra tax revenue for the government

**D** increased competition for small domestic producers

**23** Which policy is best to reduce cyclical unemployment?

**A** increase corporation tax

**B** increase the exchange rate

**C** reduce the budget surplus

**D** reduce the money supply

**24** A government decided to increase its expenditure on a major infrastructure project by building new roads.

What would decrease the multiplier effect of the project if it had occurred at the same time?

**A** a decrease in imports

**B** a decrease in the rate of interest

**C** an increase in income tax

**D** an increase in the marginal propensity to consume

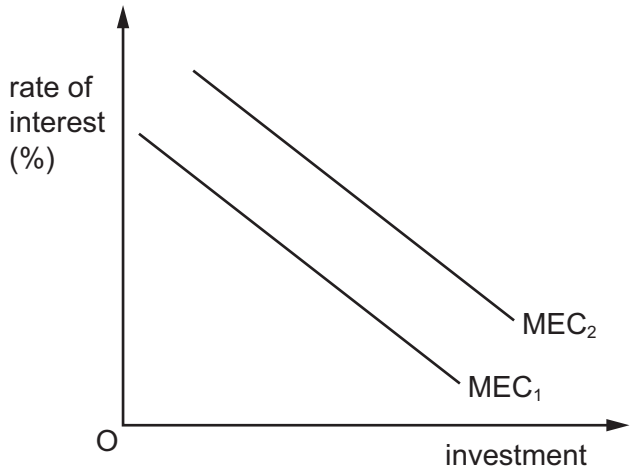
**25** A country is in recession with unused resources. The government reduces interest rates.

What do Keynesian economists believe the short-run outcome will be?

| | unemployment | economic growth | inflation |
|---|---|---|---|
| **A** | decrease | increase | decrease |
| **B** | decrease | increase | uncertain |
| **C** | increase | increase | increase |
| **D** | increase | unchanged | uncertain |

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**26** The diagram shows the investment schedule of an economy.




What would cause a shift in the MEC curve from $MEC_1$ to $MEC_2$?

**A** a decrease in the level of household spending

**B** a decrease in the rate of interest

**C** an increase in the availability of credit

**D** an increase in the rate of inflation

**27** When will an inflationary gap exist in an economy?

**A** when aggregate demand is greater than full employment income

**B** when leakages exceed injections at the full employment income

**C** when money wage rises exceed rises in labour productivity

**D** when the money supply rises faster than nominal national income

**28** What is the basic assumption underlying the accelerator theory?

**A** Investment depends on the level of business confidence.

**B** Investment depends on the level of savings.

**C** Investment depends on the rate of change in consumer demand.

**D** Investment depends on the rate of change of interest rates.

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**29** The table shows data on the unemployment and inflation rates for four countries in 2010 and 2014.

| country | unemployment rate (% of workforce) | | inflation rate (% per annum) | |
|---|---|---|---|---|
| | 2010 | 2014 | 2010 | 2014 |
| Australia | 5.2 | 6.1 | 2.7 | 1.6 |
| Canada | 8.0 | 6.9 | 2.2 | 1.9 |
| Japan | 5.1 | 3.6 | –0.3 | 2.5 |
| United States | 9.6 | 6.2 | 1.7 | 0.6 |

Which countries had a typical Phillips curve?

**A** Australia and Japan

**B** Australia only

**C** Canada and United States

**D** Japan only

**30** What is most likely to be an appropriate government action to reduce both a balance of payments current account surplus and the rate of inflation?

**A** decrease the rate of interest

**B** devalue the currency

**C** increase direct taxes

**D** remove tariffs on imports

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