Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/32**

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)

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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 In which situation are there definitely positive externalities?

A Private benefits exceed private costs.

B Private benefits exceed social benefits.

C Social benefits exceed private benefits.

D Social benefits exceed private costs.

2 A cost-benefit analysis is carried out on the construction of a hydroelectric power station.

Which combination of circumstances would be most likely to lead to the scheme being approved?

A Private benefits are greater than private costs.

B Social benefits are greater than social costs.

C Social benefits are greater than total costs.

D Total costs are greater than total revenue.

3 What does **not** pose a threat to the achievement of allocative efficiency?

A imperfect information on the part of consumers

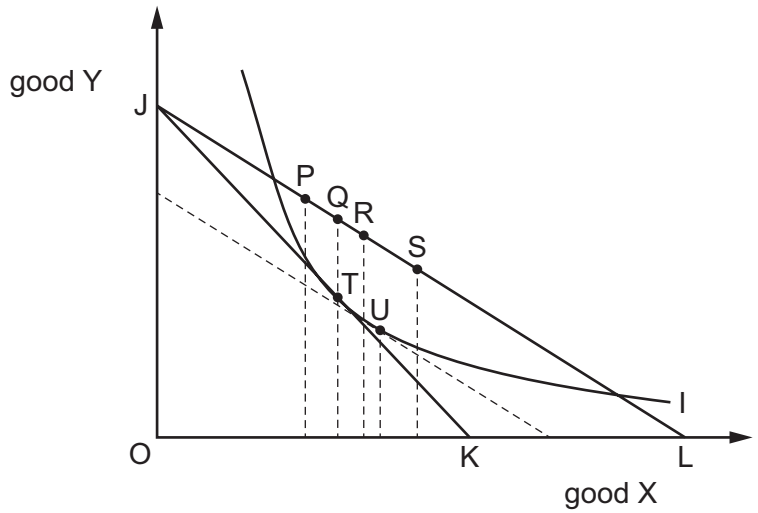
B income inequalities

C the existence of externalities

D the presence of monopolistic elements

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4 The diagram shows budget lines and an indifference curve. The consumer's initial position is T. The price of good X then falls.



Which combination of statements about the movements in this diagram is correct?

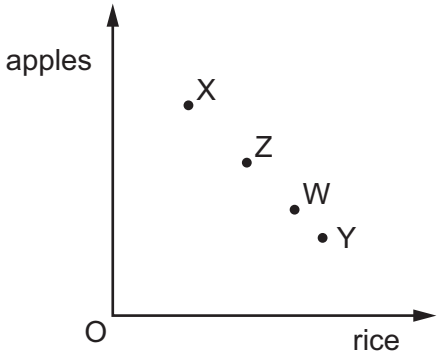
A T to Q represents perfect elasticity; T to P represents a Giffen good

B T to R represents an income effect; R to S represents a substitution effect

C T to U represents a substitution effect; T to Q represents a normal good

D T to U represents a substitution effect; U to P represents an income effect

5 The diagram shows various combinations of apples and rice which are potentially available to a consumer.



If standard indifference curves were added to the diagram they would show that the consumer is indifferent between combination X and combination W.

What can be concluded?

A The consumer is indifferent between combination Y and combination Z.

B The consumer is indifferent between combination Z and combination W.

C The consumer prefers combination Y to combination X.

D The consumer prefers combination Z to combination W.

6 The schedule shows the short-run marginal cost of producing good X.

units of X	1	2	3	4	5
marginal cost ($)	45	40	30	20	20

Given that the total fixed cost is $50, which level of output minimises average total cost?

A 2 units **B** 3 units **C** 4 units **D** 5 units

7 What must be found in two markets for price discrimination to be profitable?

A different price elasticities of demand

B different price elasticities of supply

C different producers

D different products

8 A firm maximises its profits by maximising its total revenue.

What does this imply?

A Average fixed cost is zero.

B Average revenue is equal to average cost.

C Marginal cost is zero.

D Marginal revenue is greater than marginal cost.

9 Technological change reduces the minimum efficient scale of production in an industry.

What is likely to result?

A increased number of firms and increased size of firms

B increased number of firms and reduced size of firms

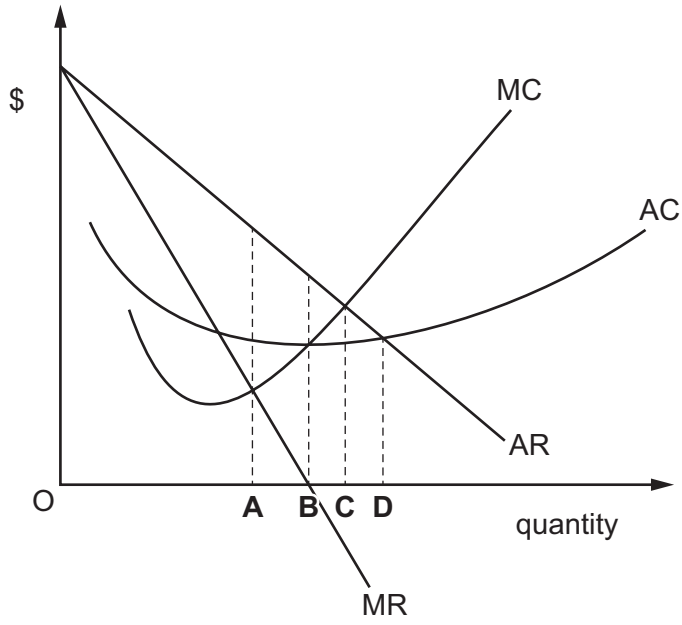
C reduced number of firms and increased size of firms

D reduced number of firms and reduced size of firms

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10 The diagram shows the costs and revenue for a firm in imperfect competition.

Which level of output would produce only a normal profit?



11 What would be a reason why small firms do **not** survive?

A In certain industries, there are economies of scale.

B Small firms often supply personal services to consumers.

C Small firms often supply products, the size of the market for which is limited.

D Small owner-managed firms involve less risk.

12 What is the implication of a dominant oligopoly following a limit pricing policy?

A The industry will be restricted to a target number of firms.

B The industry will contract as rival oligopolists are eliminated.

C The oligopolist will achieve a satisficing level of profit.

D The oligopolist will sacrifice short-term profit for long-term profit.

13 Transport economists estimate the price elasticity of demand for private car use is very low.

What would be the most effective way of reducing road traffic congestion?

A banning private cars and lorries from town centres

B introducing a subsidy to lower the price of using bicycles

C introducing road pricing on all main roads

D subsidising public transport such as trains and buses

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14 What would help to explain why there was a reduction in wage inequality in a country during the post-2008 economic recession?

A a decline in the share of wages in national output

B a decline in trade union bargaining power

C the existence of a minimum wage

D the trend towards later retirement

15 How is marginal revenue product calculated?

A marginal physical product × marginal revenue

B marginal physical product ÷ price

C total physical product × marginal cost

D total physical product ÷ marginal cost

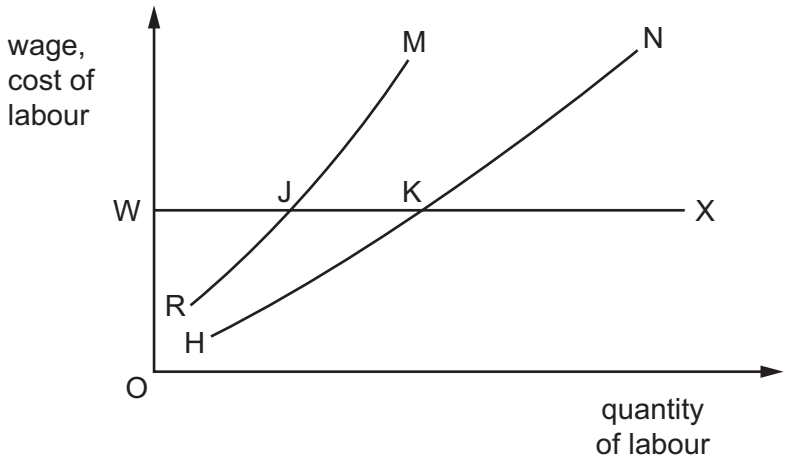
16 A firm currently employs 30 workers at a daily wage of $50 each.

The marginal cost of employing one extra worker is $112 per day.

By how much will the firm have to increase the daily wage in order to increase its labour force from 30 to 31 workers?

A $2 **B** $4 **C** $62 **D** $112

17 In the diagram, HN is the initial supply of labour curve faced by a firm, and RM is its initial marginal cost of labour curve.



What will be the firm's new labour supply curve if the workers join a trade union and achieve a union negotiated wage, OW?

A RJX **B** HKX **C** WJM **D** WKN

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18 Output per worker in an industry increases more slowly than the industry's total output.

What could explain this?

A a decrease in labour productivity

B an increase in employment

C an increase in overtime working

D an increase in the hourly wage rate

19 On a diagram showing a production possibility curve, what definitely represents long-run economic growth?

A a change in the slope of the curve

B a movement from a point below the frontier to a point on the curve

C a movement from one point to another along a given curve

D an outward shift of the curve

20 When is economic growth most likely to promote economic development?

A when it achieves maximum rates of extraction of raw materials

B when it concentrates on increasing production

C when it discovers valuable new resources in remote natural environments

D when it provides the funds to finance cleaner production processes

21 Which items in the table are classified as foreign aid?

	foreign direct investment	official development assistance	portfolio investment flows
A	no	no	yes
B	no	yes	no
C	yes	no	yes
D	yes	yes	no

22 Country X's living standards were compared with country Y's living standards using real GNP per head converted into US dollars. Country X was ranked above country Y.

Which factor might have caused this ranking to be **incorrect**?

A Actual market exchange rates were used rather than purchasing power parity rates.

B Government spending on transfer payments was higher in country Y than in country X.

C Inflation was higher in country X than in country Y.

D The distribution of income was more unequal in country X than in country Y.

23 In 2007 Turkey had a population of 73 m. Its labour force was 36 m, of which 12 m were trained for the primary sector and 24 m were trained for the secondary and tertiary sectors. The unemployment rate was 10%.

What was the number of people unemployed?

A 1.2 m **B** 2.4 m **C** 3.6 m **D** 7.3 m

24 An economy's manufacturing share of real GDP fell from 30% in 1970 to 12% in 2016.

What type of unemployment would result from this?

A cyclical

B frictional

C structural

D voluntary

25 In an open economy, when autonomous investment increases by 100, equilibrium national income increases by 300.

Which conclusion can be drawn?

A The accelerator is 3.

B The marginal propensity to consume is $\frac{2}{3}$.

C The marginal propensity to import is $\frac{2}{3}$.

D The marginal propensity to save plus marginal tax rate is $\frac{1}{3}$.

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26 The diagram outlines the monetary transmission mechanism following an expansionary central bank intervention (quantitative easing). Key actions have been omitted from the process.

central bank .....1..... government assets

↓

short-term interest rates .....2.....

↓

investment demand .....3.....

↓

real GDP rises

Which words complete gaps 1, 2 and 3?

	1	2	3
A	buys	fall	rises
B	buys	rise	falls
C	sells	fall	rises
D	sells	rise	falls

27 In Keynesian monetary theory, when will an increase in the supply of money **not** cause a fall in interest rates?

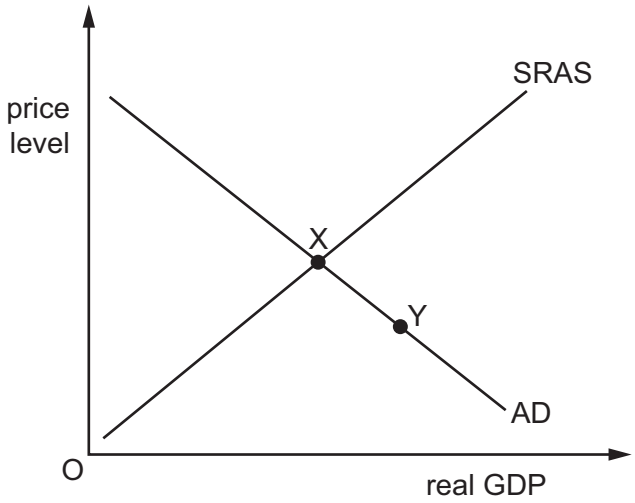
A if bond prices are expected to rise

B if investment demand is interest-inelastic

C if the liquidity preference schedule is perfectly elastic

D if the velocity of circulation of money increases

28 The diagram shows an economy in equilibrium at point X.



What would be most likely to cause the economy to move from point X to point Y?

A an increase in government spending on transfer payments

B an increase in income tax

C an increase in the average wage rate

D an increase in the productivity of labour

29 The table identifies pairs of possible government aims.

In which case is achievement of aim 1 likely to be consistent with the achievement of aim 2?

	aim 1	aim 2
A	higher foreign exchange rate	lower rate of unemployment
B	low rate of inflation	balance of payments surplus
C	more even distribution of income	higher rate of saving
D	rapid economic growth	sustainable economic development

30 What is most likely to result from the discovery of oil reserves in a developing economy?

A a more equal distribution of income and wealth

B an increase in the competitiveness of commercial agriculture

C an increase in the exchange rate

D a reduction in the volume of imports of manufactured goods

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