Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/33**

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)

1153905680

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 condition must be met for economic efficiency to be achieved?

A Marginal social benefits are at a maximum in the production of all goods.

B Marginal social costs are at a minimum in the production of all goods.

C Marginal social costs are zero in the production of all goods.

D Marginal social costs equal marginal social benefits in the production of all goods.

2 What is a characteristic of a merit good?

A free at the point of use

B has zero marginal costs

C non-competitive in use

D possesses positive externality

3 Which statement is correct?

A External benefit minus private benefit equals social benefit.

B Private benefit minus external benefit equals social benefit.

C Social benefit minus external benefit equals private benefit.

D Social benefit plus private benefit equals external benefit.

4 When does a consumer achieve maximum total utility (TU), according to marginal utility (MU) theory for two goods, X and Y, with different prices (P)?

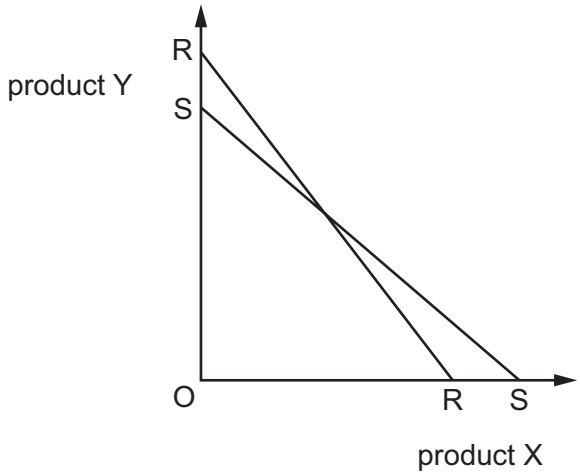
A $MU_X = MU_Y$

B $\frac{MU_X}{P_X} = \frac{MU_Y}{P_Y}$

C $\frac{MU_X}{P_Y} = \frac{MU_Y}{P_X}$

D $TU_X = TU_Y$

5 The diagram shows a change in a consumer's budget line from RR to SS.



What might explain why this occurred?

A a decrease in income and a fall in the price of X

B a decrease in income and a rise in the price of X

C an increase in income and a fall in the price of X

D an increase in income and a rise in the price of X

6 When shirts are produced, fixed costs are $100 and the variable cost is $5 per shirt.

If the price is $10, which output would result in normal profit?

A 10 shirts

B 20 shirts

C 25 shirts

D 100 shirts

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[Turn over

7 The table shows four market structures.

Which characteristics could describe the market structure shown?

	market structure	barriers to entry	differentiated products
A	monopolistic competition	low	no
B	monopoly	high	yes
C	oligopoly	low	no
D	perfect competition	high	yes

8 A firm abandons its policy of horizontal expansion and switches to a policy of backward vertical growth.

What does this suggest is most likely about the firm's objectives?

A It now prefers revenue maximisation to cost minimisation.

B It now prefers sales maximisation to profit satisficing.

C It now prefers security of sales to profit maximisation.

D It now prefers security of supplies to growth of market share.

9 What identifies the output level required to meet the stated aim of the firm?

	aim of firm	produce at output where
A	maximum efficiency	marginal cost is at a minimum
B	profit maximising	marginal cost is equal to average revenue
C	quantity of sales maximising	average revenue is equal to average cost
D	revenue maximising	marginal revenue is zero

10 What makes it likely that firms will collude in setting prices for a particular product?

A a highly contestable market structure

B a small number of firms with economies of scale

C persistent shortages of the product being supplied

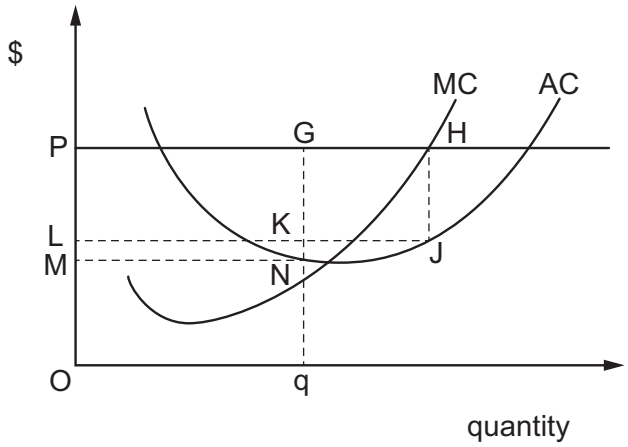
D the existence of patent rights possessed by firms

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11 The diagram shows a firm's marginal and average cost curves.

The firm enters a collusive agreement with other firms in the industry. It is agreed that each firm will charge a common price, OP, and will restrict the level of its output to a production quota set by the industry cartel.

The firm is allocated a production quota, Oq.



The firm decides to cheat in order to maximise its profits.

What is its short-run increase in profits?

A PGKL

B PHJL

C PHJL minus PGNM

D PGKL minus LKNM

12 The diagram shows a notice on a motorway near Cambridge.



What is this an example of?

A government regulation

B merit good

C nudge theory

D public good

13 A reason for government intervention in the workings of the economy is to attempt to correct for market failure. Sometimes, though, government failure may occur.

What is **not** a possible reason for government failure?

A Governments may have to make decisions on the basis of out-of-date information.

B Governments may make decisions that reduce negative externalities.

C The extent of the market failure may be difficult to judge.

D When circumstances change a government may be unable to respond quickly.

14 Which policy combination will reduce income inequalities in a country?

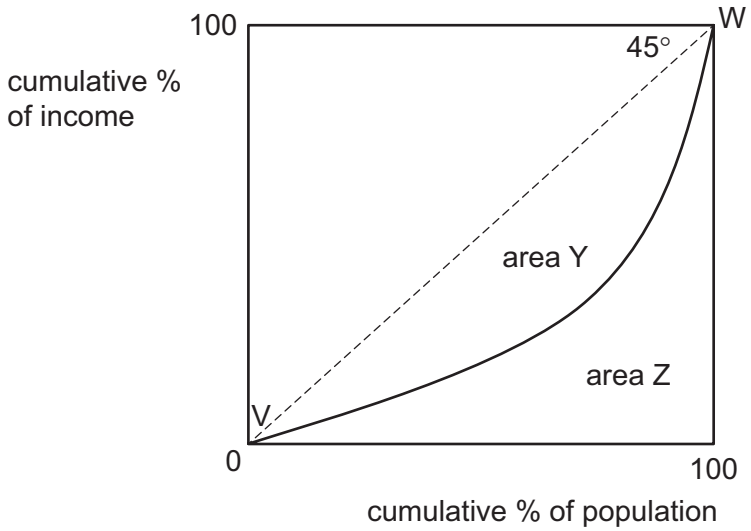
A impose a fixed amount tax on all people and reduce unemployment benefits

B increase social welfare payments and impose a higher marginal income tax rate

C increase transfer payments and impose higher indirect taxation

D reduce rates of tax on higher incomes and increase welfare payments

15 The diagram shows an economy's Lorenz curve (VW).



How is the Gini coefficient for the economy calculated?

A $\frac{Y}{Y+Z}$ **B** $\frac{Y}{Z}$ **C** $\frac{Z}{Y}$ **D** $\frac{Z}{Y+Z}$

16 What will cause the supply curve of labour in a particular industry to shift to the left?

A a fall in demand for the industry's product

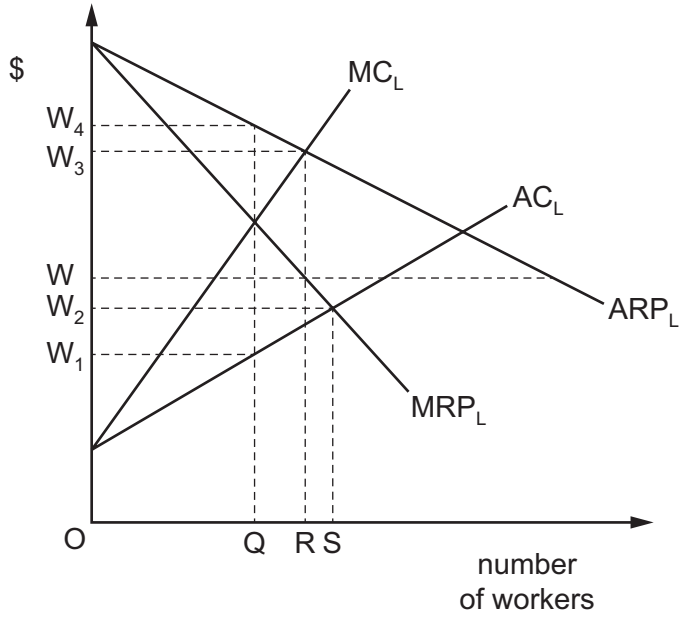
B a greater use of machinery in the production of the industry's output

C a rise in wages paid in similar occupations in other industries

D a weakening of trade union influence in the industry

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17 The diagram shows the costs and revenue curves in the labour market for a firm in imperfect competition.



Initially the firm is at an equilibrium in the factor market.

What will happen to the wage rate and employment if a trade union negotiates a wage of W?

	wage rate	employment
A	fall from W_3 to W	remain the same at OR
B	fall from W_4 to W	increase from OQ to OR
C	rise from W_1 to W	increase from OQ to OR
D	rise from W_1 to W	remain the same at OQ

18 A country has a population of 100 million. 60 million are of working age and 50 million are in the labour force. The country's unemployment rate is 10%.

How many people are employed?

A 40 million **B** 45 million **C** 50 million **D** 54 million

19 The table shows the nominal GDP growth and inflation rate in four countries, W, X, Y and Z.

	nominal GDP growth rate (%)	annual inflation rate (%)
W	2.1	1.9
X	–1.6	8.9
Y	4.1	5.8
Z	–2.0	16.4

What can be concluded from the table?

A W experienced the highest rate of real economic growth.

B X and Z experienced deflation.

C Y experienced the greatest rise in the standard of living.

D Z experienced the greatest growth in public debt.

20 Which trade policy of a developed country is **least** likely to allow a developing country to experience increased growth?

A a decrease in administrative restrictions on imports from developing countries

B an increase in subsidies of capital goods exports to developing countries

C a reduction in quotas on imports from developing countries

D a reduction in tariffs on imports from developing countries

21 What is **not** included in National Income accounts?

A a gift by a parent to her daughter as a deposit on an apartment

B earnings of a part-time worker in a school dining room

C interest earned on savings accounts intended for retirement

D profits re-invested by a company to fund capital expenditure

22 A developing country relies heavily on the production of a primary product for its national income.

Which change will make it more likely that the country will benefit from its participation in international trade?

A an increase in income elasticity of demand for the primary product

B an increase in tariffs imposed on the primary product by developed countries

C an increase in the cost of international freight transport in real terms

D an increase in the price of manufactured products relative to the primary product

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23 What might cause a country to experience both a rise in the number of people unemployed and an increase in job vacancies?

A a decrease in housing and transport costs

B a decrease in unemployment benefit

C an increase in the occupational immobility of labour

D an increase in the skills of the labour force

24 In a two sector economy autonomous consumption expenditure increases by $100 billion, autonomous investment expenditure by $200 billion and the marginal propensity to consume is 0.5.

What will be the increase in National Income?

A $150 billion

B $300 billion

C $450 billion

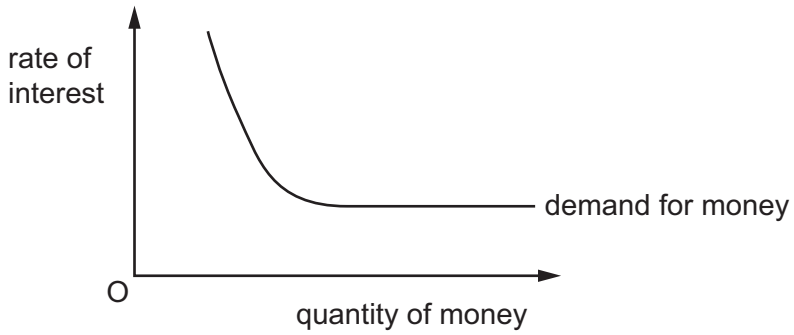
D $600 billion

25 The central bank in an open economy cuts the interest rate to avoid deflation.

Under which conditions is this expansionary monetary policy most likely to be effective?

	asset prices	consumption spending
A	rise rapidly	interest elastic
B	rise rapidly	interest inelastic
C	rise slowly	interest elastic
D	rise slowly	interest inelastic

26 The diagram shows that the elasticity of demand for money becomes infinite at a certain rate of interest.



Which statement explains this situation?

A At low interest rates there is an infinite demand for bonds.

B Other assets are close substitutes for money.

C Some money is required for transactions balances.

D There is a liquidity trap.

27 What would be most likely to result in an increase in unemployment?

A a decrease in the level of bank loans

B a decrease in the level of taxation

C a decrease in the rate of interest

D an increase in the money supply

28 Which macroeconomic indicator is **least** likely to identify a developing country?

A real GDP per capita

B the Gini coefficient

C the Human Development Index

D the Phillips curve

29 What would **not** help to achieve the macroeconomic objective of economic growth?

A decreasing corporation tax

B increasing income tax

C reducing interest rates

D spending on education and training

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30 What is a reflationary fiscal measure?

A increasing government spending

B increasing taxes

C increasing the money supply

D reducing interest rates

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