Cambridge International AS & A Level

Cambridge Assessment International Education
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/31**

Paper 3 Multiple Choice **October/November 2019**

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.

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1 Which situation would indicate the presence of an externality?

A Producers' actions cause a shortage of a particular good.

B Private motorists contribute to traffic congestion in city centres.

C Differences in ability cause inequality in the distribution of income in an economy.

D Increased demand for a good by the rich raises its price for poorer consumers.

2 Building a hospital has a social cost of $200 million. The social benefit is $240 million; external benefit is $150 million.

What can be concluded from this information?

A external benefit is greater than external cost

B external benefit is greater than private benefit

C private benefit is greater than private cost

D the project should not take place

3 A firm produces good X and good Y when the marginal product of both labour and capital is diminishing.

The table shows the marginal products at a given output.

	marginal product of labour (units)	marginal product of capital (units)
good X	4	6
good Y	8	4

The firm should use ……1…… labour and …… 2…… capital in the production of X and ……3…… labour and ……4…… capital in the production of Y.

Which words complete the gaps 1, 2, 3 and 4 if the firm wished to increase productive efficiency?

	1	2	3	4
A	less	more	more	less
B	less	more	more	more
C	more	less	less	more
D	more	less	less	less

4 What is equal at all points along an indifference curve for an individual consumer?

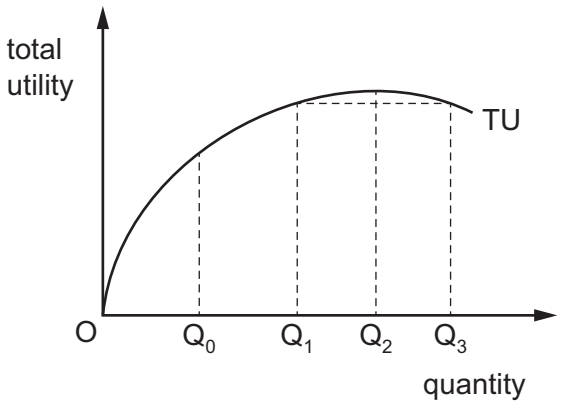
A marginal expenditure

B marginal utility

C total expenditure

D total utility

5 The diagram shows the total utility of a good for an individual consumer. Marginal utility gives a guide to the price a consumer is willing to pay.



What can be concluded about the price a consumer is willing to pay per unit?

A The price a consumer is willing to pay will be higher at Q_0 than Q_1.

B The price a consumer is willing to pay will be higher at Q_3 than Q_0.

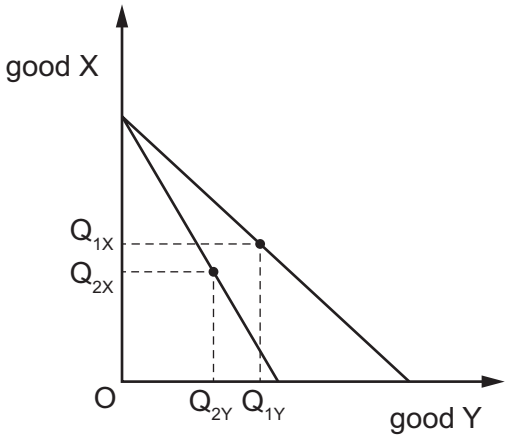
C The price a consumer is willing to pay will be highest at Q_2.

D The price a consumer is willing to pay will be the same at Q_1 and Q_3.

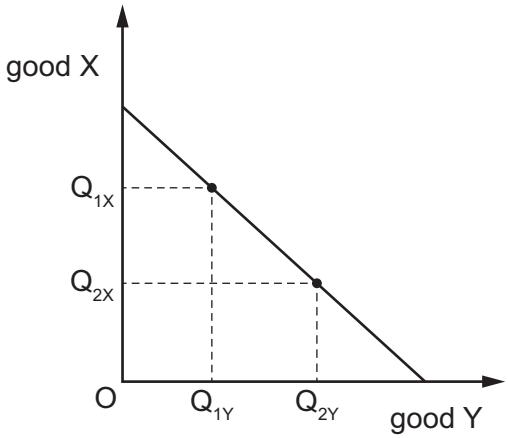
6 The diagrams show different budget lines and consumer equilibrium choices. The consumer is in equilibrium at $Q_{1X}Q_{1Y}$.

Which diagram shows the effect of a successful advertising campaign of good Y?

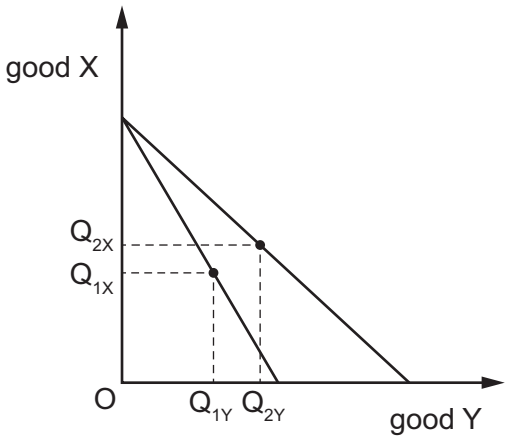
A



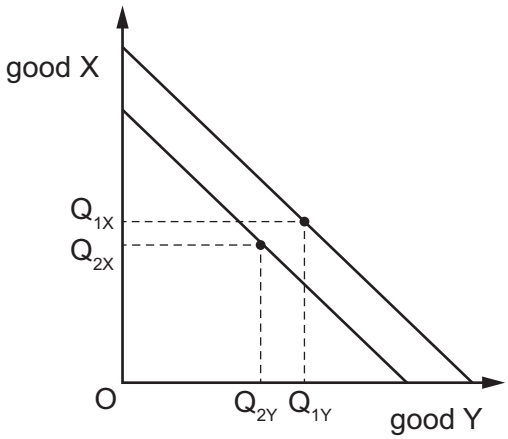
B



C



D



7 What is a characteristic of a highly contestable industry?

A a reduction in abnormal profits

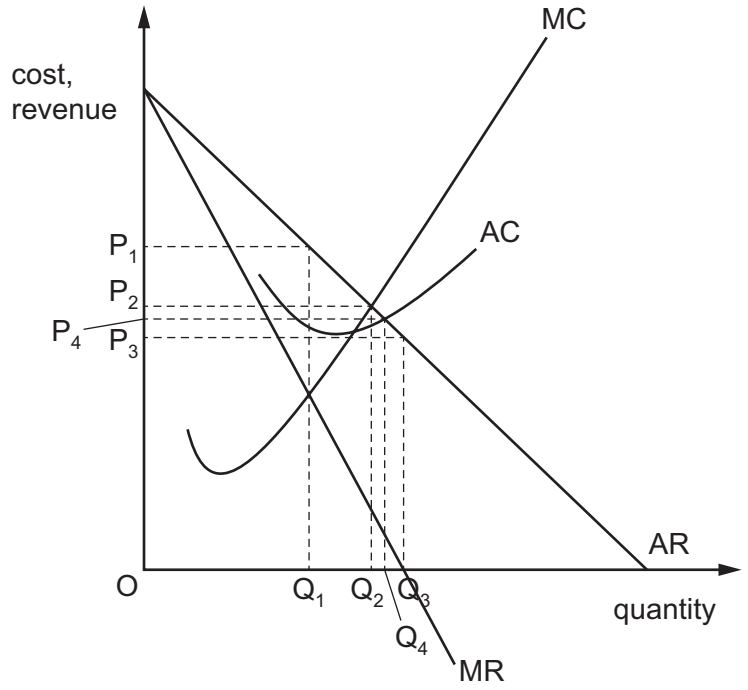
B a substantial volume of advertising by existing firms

C relatively few firms in the industry

D significant sunk costs incurred by new entrants to the industry

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8 The diagram shows cost and revenue curves for a firm.



The firm may seek to either maximise profit or maximise revenue.

What is the correct price and quantity combination for each?

	maximise profit	maximise revenue
A	Q_1P_1	Q_3P_3
B	Q_1P_1	P_4Q_4
C	Q_2P_2	Q_3P_3
D	Q_2P_2	Q_4P_4

9 The list provides characteristics of the market in which firm X operates.

- Firms in the market spend a lot of money on advertising.
- Firms in the market experience a high level of uncertainty.
- Start-up costs for new firms entering the market are relatively high.
- The largest five firms in the market control 85% of total sales.

In which market structure is firm X operating?

A monopoly

B monopolistic competition

C oligopoly

D perfect competition

10 Which statement about the 'kinked demand curve' model of oligopoly is **incorrect**?

A The kink in the demand curve of each firm is based on expectations about other firms' responses to changes in its price.

B The marginal revenue curve of the firm has a vertical segment at the market price.

C The model explains how the equilibrium market price is determined.

D The model suggests price stickiness within a certain range of marginal costs.

11 As firm X grows in size, it specialises in a narrower range of products.

Which economies of scale will the firm be **less** able to benefit from?

A financial

B marketing

C risk-bearing

D technical

12 What would economists agree should be the aim of any healthcare system?

A to meet all the healthcare demands of the population

B to provide every patient with the latest and best available treatment

C to provide free medical treatment

D to secure the maximum health gain from the resources available

13 A producer of a good causes pollution.

When will a specific tax on the production of the good be most effective in reducing output?

A when there is price elastic demand and price elastic supply

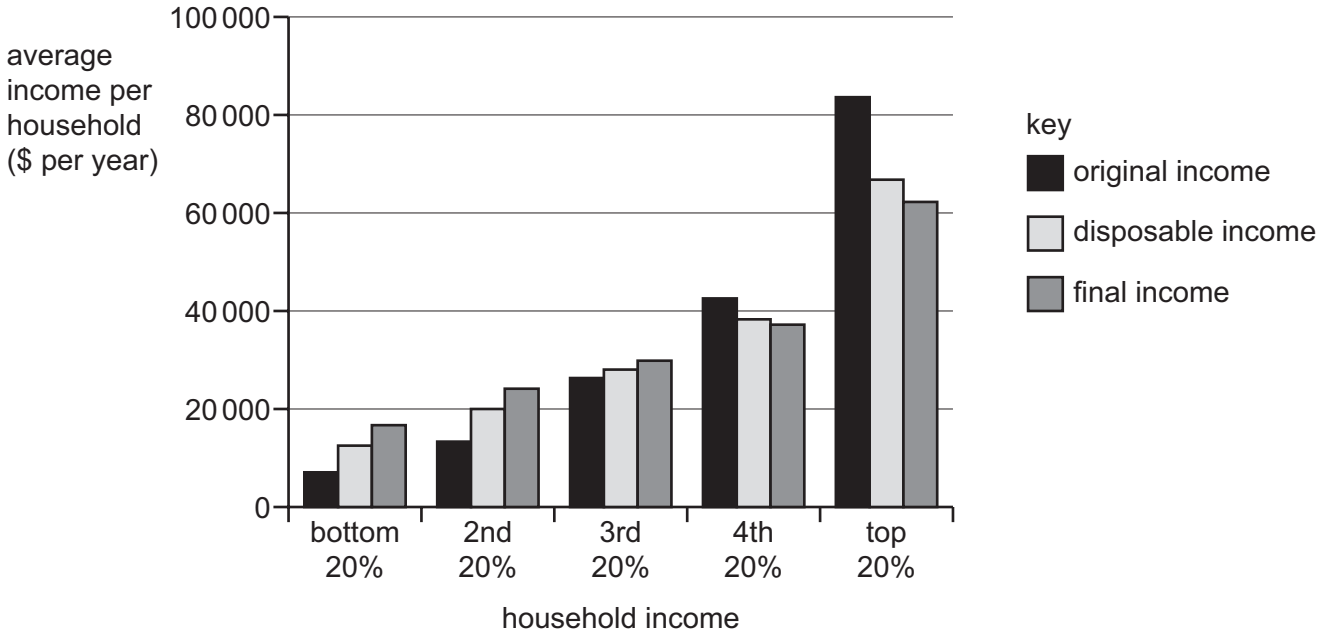
B when there is price elastic demand and price inelastic supply

C when there is price inelastic demand and price elastic supply

D when there is price inelastic demand and price inelastic supply

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14 Governments often aim to reduce income inequalities. The diagram shows the effects of using taxation and benefits to try to achieve this aim.



What can be concluded about the effects of taxes and benefits from the diagram?

A All income groups are better off except those earning more than 40 000 dollars per year.

B Benefits paid to the lower income groups are not a burden because they are not paid out of tax revenues.

C The average final income of the top 20% exceeds the combined final incomes of the other groups.

D The progressive taxation system still favours the top 20% over the bottom 20% of households.

15 Which government policy would **not** be classified as regulation?

A bans on heroin and cocaine consumption

B compulsory wearing of seatbelts in cars and coaches

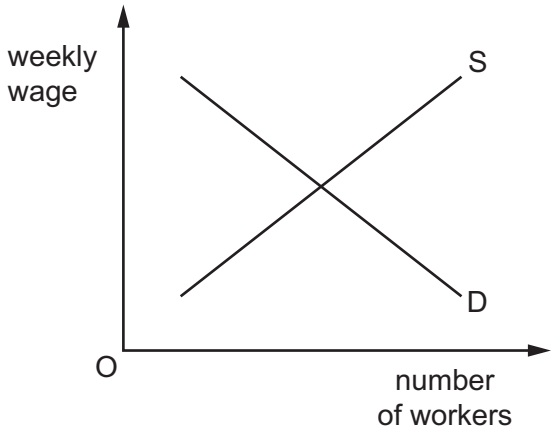
C licences for the extraction of water from lakes and rivers

D taxation of cigarettes and tobacco products

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[Turn over

16 The diagram shows the initial position of a labour market.

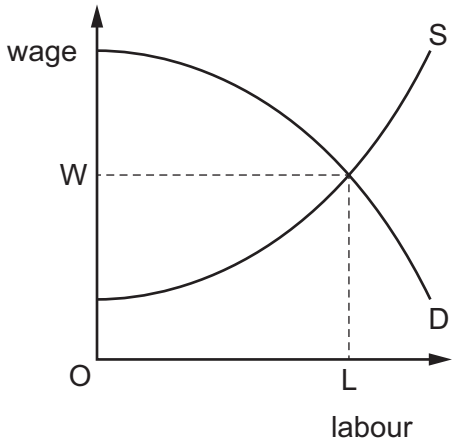


The government increases the number of statutory paid holidays to which workers are entitled from 10 days a year to 15 days a year.

How will this affect the supply and demand curves in the diagram?

	employers' demand curve	workers' supply curve
A	shifts to left	shifts to right
B	shifts to left	shifts to left
C	shifts to right	shifts to right
D	shifts to right	shifts to left

17 The diagram represents the demand and supply of labour in a competitive industry.



What is true about unit of labour L when they are paid wage W?

A L is paid only economic rent.

B L is paid an element of economic rent and transfer earnings.

C L is paid below transfer earnings and leaves the industry.

D L is paid exactly transfer earnings and remains in work.

18 Which combination of characteristics is usually associated with a developing country?

A high death rate and low levels of productivity

B high gross domestic product and low infant mortality

C low birth rate and a large proportion of income from primary industries

D low exports of capital and a large tertiary sector

19 What is the best description of sustainable economic development?

A a long term increase in the actual output of an economy

B a long term increase in the living standards without damage to the environment

C a long term increase in the productive potential of an economy

D a long term increase in the living standards of every member of society

20 The table gives the percentage (%) rates of youth unemployment and total unemployment in France and the UK in 2001 and 2005.

	France		UK	
	youth unemployment (%)	total unemployment (%)	youth unemployment (%)	total unemployment (%)
2001	19.2	8.7	12.0	5.2
2005	22.1	10.1	12.5	4.8

What can be concluded from the table?

A France and the UK experienced the same trends in unemployment.

B France had a higher number of unemployed people than the UK.

C The UK used a different definition of unemployment from France.

D The UK was more successful than France in controlling unemployment.

21 Which change in the labour market could cause inflation if the government adopted an expansionary fiscal policy?

A a decrease in the economy's national minimum wage

B a decrease in the power of the economy's trade unions

C an increase in the level of benefits paid to unemployed workers

D an increase in the migration of workers into the country from overseas

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22 Which assumption is **not** made in the Keynesian model of national income and employment determination?

A An increase in aggregate demand can increase real national income.

B Interest rates move to equalise planned savings and investment.

C Investment depends on the expectation of entrepreneurs.

D Planned consumption is a function of national income.

23 An economist once said "if you pay people not to work and tax them when they do, don't be surprised if you get unemployment".

What is this an example of?

A cyclical unemployment

B frictional unemployment

C structural unemployment

D voluntary unemployment

24 The table provides data for the external debt as a percentage of Gross National Income (GNI) for four countries in 2010 and 2015.

	external debt as % of GNI	
	2010	2015
Bulgaria	104.2	79.9
Georgia	85.6	109.4
India	17.2	23.4
Serbia	85.4	88.8

What can be deduced from the table?

A All countries borrowed more money externally in 2015 than in 2010.

B External borrowing grew more slowly than GNI in India.

C Georgia borrowed the most money externally in 2015.

D The burden of external debt changed least in Serbia.

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25 The following statistics are for Pakistan and refer to 2016.

	%
GDP growth	5.7
population growth	2.0
rate of inflation	3.8

What was the approximate rate of growth of real GDP per capita for Pakistan in 2016?

A 0% **B** 2% **C** 4% **D** 6%

26 In a 4-sector economy, consisting of households, firms, government and foreign trade, the level of national income is in equilibrium where

$$C + I + G + (X – M) = Y.$$

What must Y include for an equilibrium to exist?

A C + S + M **B** C + S + T **C** S + T **D** S + T + M

27 According to Keynesian theory, what will cause the rate of interest to rise?

A a decrease in liquidity preference

B a decrease in the level of national income

C a decrease in the rate of investment

D a decrease in the supply of money

28 A government finances its public sector borrowing by selling securities to the non-bank private sector.

What will follow?

A The budget deficit will fall.

B The deficit on the current account will increase.

C The money supply will rise.

D The national debt will increase.

29 When would a central bank be able to exert the closest control over the money supply of the country?

A If it intervened in the foreign exchange market to influence the value of domestic currency.

B If it only issued domestic currency at a fixed price in exchange for US$.

C If the country was part of a monetary union with other countries.

D If the domestic currency was allowed to float freely in the foreign exchange market.

30 A fall in domestic investment leads to an increase in unemployment.

Which other problem might also be observed at the same time?

A an increase in interest rates on loans for house purchase

B an increase in the current account balance of payments deficit

C an increase in the government budget deficit

D an increase in the rate of price inflation

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