Cambridge International AS & A Level

Cambridge Assessment International Education
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/32**

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)

9091355185

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 **11** printed pages and **1** blank page.

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1 Some multinational oil companies extracting oil in developing countries are now required to repair the damage they do to the environment.

Which best describes the total costs incurred by the oil companies in such circumstances?

A external costs

B private costs plus external costs

C social costs plus external costs

D social costs plus private costs

2 In an economy, no one can be made better off without making someone else worse off.

What does **not** necessarily follow from this?

A The conditions for allocative efficiency have been met.

B The conditions for productive efficiency have been met.

C The distribution of income is socially acceptable.

D The economy is operating at a point on its production possibility curve.

3 A government decided to approve a road building scheme because it was socially beneficial. In making its decision it calculated private costs at $800m, private benefits at $800m and external costs at $150m.

What **must** have been true about the external benefits of the scheme?

A External benefits equalled private benefits.

B External benefits exceeded external costs.

C External benefits exceeded $200m.

D There were no external benefits.

4 What is it called when a consumer's marginal utility is greater than the price paid for the good?

A a Giffen good

B an inferior good

C consumer surplus

D producer surplus

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5 A consumer has $3 to spend each day on chocolate bars or toffee bars, which all cost $1 each.

The table below shows the units of additional satisfaction she gets from consuming each bar.

1st chocolate bar 16	2nd chocolate bar 13	3rd chocolate bar 10
1st toffee bar 14	2nd toffee bar 12	3rd toffee bar 9

What should she buy to maximise her total utility?

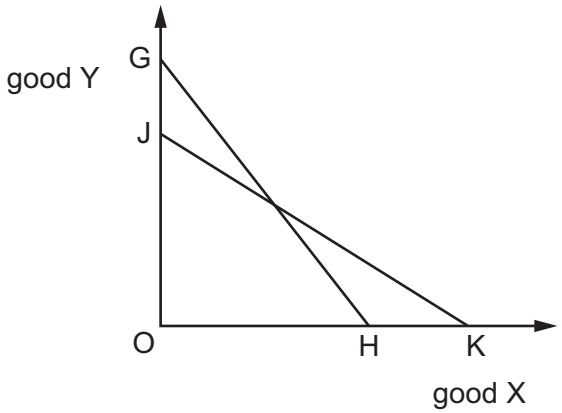
A 1 chocolate bar and 2 toffee bars

B 2 chocolate bars and 1 toffee bar

C 3 chocolate bars

D 3 toffee bars

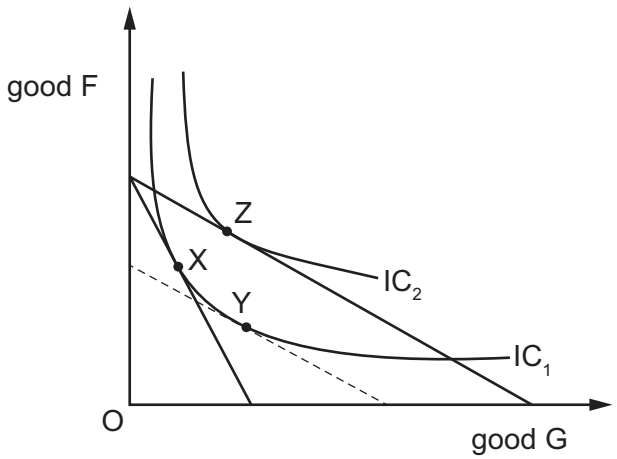
6 The curve JK in the diagram is a consumer's initial budget line.



Which combination could cause the budget line to shift to GH?

	price of good X	consumer's money income
A	increase	increase
B	decrease	decrease
C	increase	decrease
D	decrease	increase

7 The diagram shows a consumer's indifference curves (IC) for goods F and G together with the consumer's budget lines.



What could explain the movement from X to Z on the diagram?

A a fall in the price of G when G is an inferior good

B a fall in the price of G when F is a Giffen good

C a fall in the price of G when G is a normal good

D a fall in the price of G when G is a Giffen good

8 A firm has the choice between five levels of output. The table shows the total cost and total revenue of producing at each output level. The firm could sell whatever output it produces.

output (units)	total cost ($)	total revenue ($)
1000	8 000	10 000
2000	12 000	18 000
3000	19 000	24 000
4000	23 000	28 000
5000	25 000	25 000

The firm decides to produce 4000 units.

What is the firm's aim?

A to maximise profit

B to maximise sales

C to maximise revenue

D to minimise average costs

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9 In which type of market structure are commercial banks usually found?

A perfect competition, because they all link their interest rates to that of the central bank

B perfect competition, because they offer identical products and services

C monopolistic competition, because a competitive market prevents them making excess profits

D oligopoly, because they are affected by the actions of other banks

10 What is a condition for operating a successful cartel?

A a large number of firms in the industry

B each firm has a differentiated product

C low barriers of entry to the industry

D strictly enforced production quotas

11 Which assumption is essential for a market to be contestable?

A The market is supplied by a large number of firms.

B Firms are free to enter and leave the market.

C Firms cannot earn abnormal profits in the short run.

D Firms produce differentiated goods.

12 What is generally associated with the principal-agent problem?

A Directors prefer company growth to greater shareholder dividends.

B Managers ignore workers' concerns about safety in the workplace.

C Shareholders determine the price of products.

D Workers go on strike against managers' reorganisation plans.

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13 The table shows the output of chairs at a factory when different numbers of workers are employed.

number of workers	0	1	2	3	4	5
number of chairs produced	0	7	17	26	34	40

When will diminishing marginal returns to labour set in?

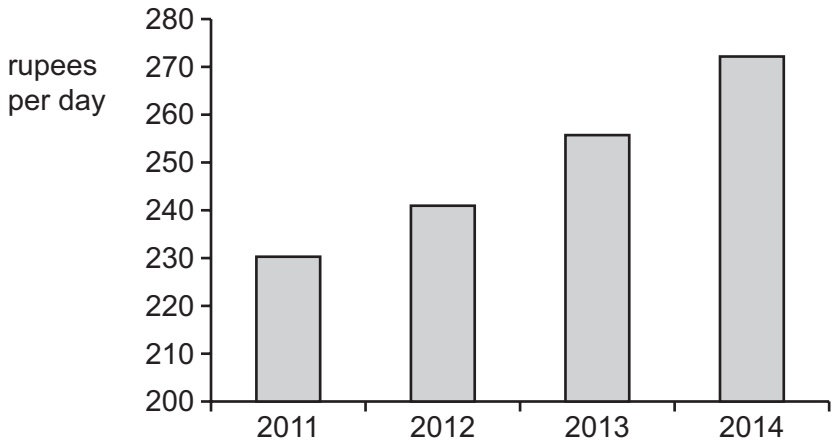
A When the second worker is employed.

B When the third worker is employed.

C When the fourth worker is employed.

D When the fifth worker is employed.

14 The chart gives information about the average daily wage rate for all industries in India.



What could have caused this trend in wage rates?

A an increase in capital-intensive production

B an increase in the number of industrial workers

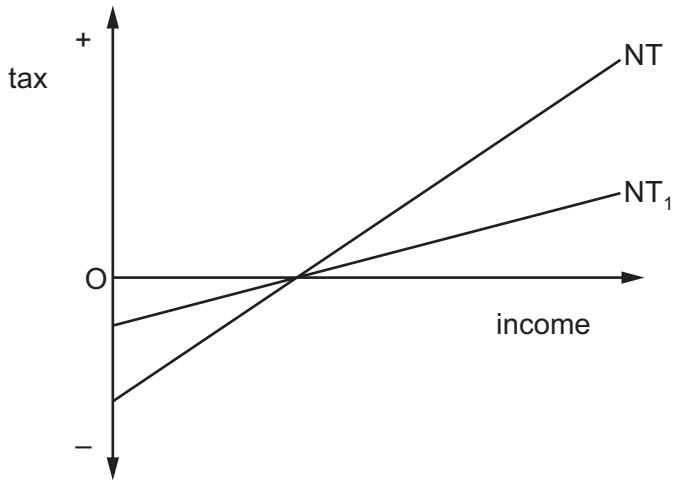
C an increase in the number of people unemployed

D an increase in the productivity of labour

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15 A country has a negative income tax regime.

The curve NT in the diagram shows the country's initial tax schedule.



A change in the tax rate causes the schedule to shift to NT_1.

How will this affect work incentives and the after-tax distribution of income?

	work incentives	distribution of income
A	strengthen	less equal
B	strengthen	more equal
C	weaken	less equal
D	weaken	more equal

16 There is a fixed supply of skilled workers in an industry. Firms can no longer find enough workers to meet their demand for labour.

What could be a solution to the problem?

A Allow wage rates to fall as the market demands.

B Introduce work-sharing and reduce working hours.

C Make offices more attractive by adding air-conditioning.

D Provide more training courses for new recruits.

17 A government is worried about the increasing monopsony power of employers in the wage bargaining process.

Which policy combination is **most** likely to improve the wages and employment prospects of workers?

	trade union powers	immigration controls	national minimum wage
A	strengthen	relax	cut
B	strengthen	strengthen	raise
C	weaken	relax	cut
D	weaken	strengthen	raise

18 What is **not** a source of market failure?

A imperfect information

B income inequality

C monopoly

D non-excludability

19 A government regards fresh fruit and vegetables as merit goods, and subsidises agriculture to boost their production.

What could be a government failure arising from these subsidies?

A cheaper fresh fruit and vegetables

B land clearance reducing wildlife

C lower spending on treating dietary illnesses

D more jobs picking fruit and vegetables

20 Which type of unemployment is associated with a deficiency in aggregate demand?

A cyclical

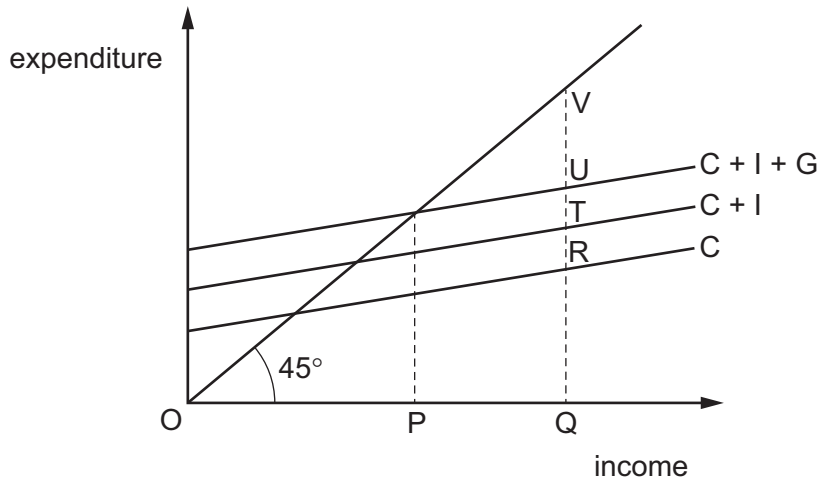
B frictional

C structural

D voluntary

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21 In the diagram, OP is the equilibrium level of income and OQ the full employment level of income in a closed economy.



What is the deflationary gap?

A PQ **B** RV **C** TV **D** UV

22 What represents an injection into a country's circular flow of income?

A corporate taxes

B interest payments on government bonds

C the payment of dividends to foreign shareholders

D the repayment of bank loans

23 What will be the **most** likely consequence of an increase in the dependency ratio?

A a decrease in GDP per head

B a decrease in labour productivity

C an increase in the labour force

D an increase in unemployment

24 Which statement is correct?

A Economic development is necessary for economic growth.

B Economic growth and economic development are directly proportional.

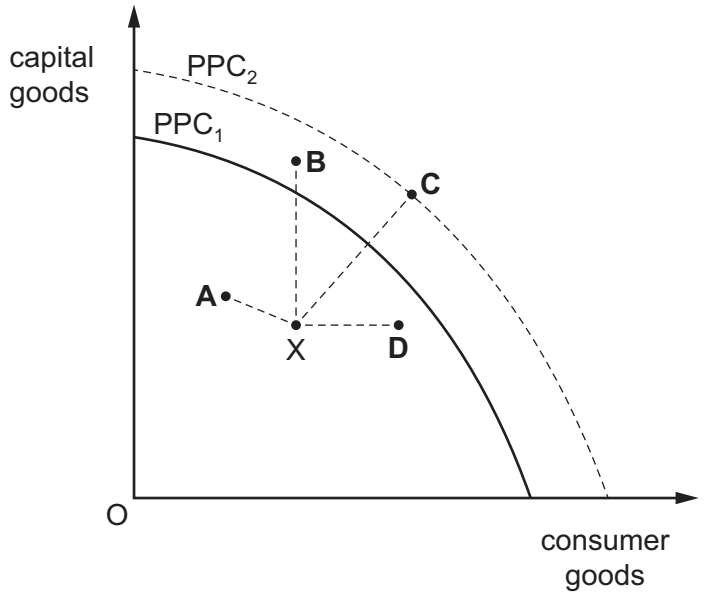
C Economic growth enables economic development.

D Economic growth is always sustainable.

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25 The diagram shows a production possibility curve PPC_1. The economy is initially at point X.

If the economy achieves actual economic growth but not potential growth, what would the final position be?



26 It has been estimated by the United Nations that the total external debt of developing countries has been increasing by about $425 billion each year.

What is **least** likely to have contributed to this?

A disincentives for foreign direct investment through political instability

B increased government subsidies for the development of tourism industries

C withdrawal of multinational companies due to delays in the award of government contracts

D worsening of the terms of trade with partners in developed economies

27 The following are four conditions sometimes attached to IMF loans to developing countries.

Which condition would conflict with the 'infant industry' argument?

A the need to allow free trade

B the need to control inflation

C the need to have a contractionary fiscal policy

D the need to privatise government enterprises

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28 In which exchange rate regime would the central bank of a country be best able to pursue an independent monetary policy to control the rate of inflation?

A a freely floating exchange rate system

B a system where the country's currency has a targeted value in relation to the US$

C a system where the central bank buys and sells foreign currency at a fixed rate

D where the country participates in a monetary union with other countries

29 What is measured on the vertical axis of the Phillips curve?

A the rate of change of real wages

B the rate of change of take-home pay

C the rate of inflation

D the rate of interest

30 Workers in poor countries are often less productive than workers using the same technology in rich countries.

What would be **most** likely to remedy this situation?

A an increase in the saving ratio in poor countries

B increased freedom of migration from poor countries to rich countries

C increased investment in education in poor countries

D the removal of trade barriers imposed by rich countries on imports from poor countries

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