Cambridge International AS & A Level

Cambridge Assessment International Education
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/33**

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)

5562807559

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 What is **not** an example of an externality?

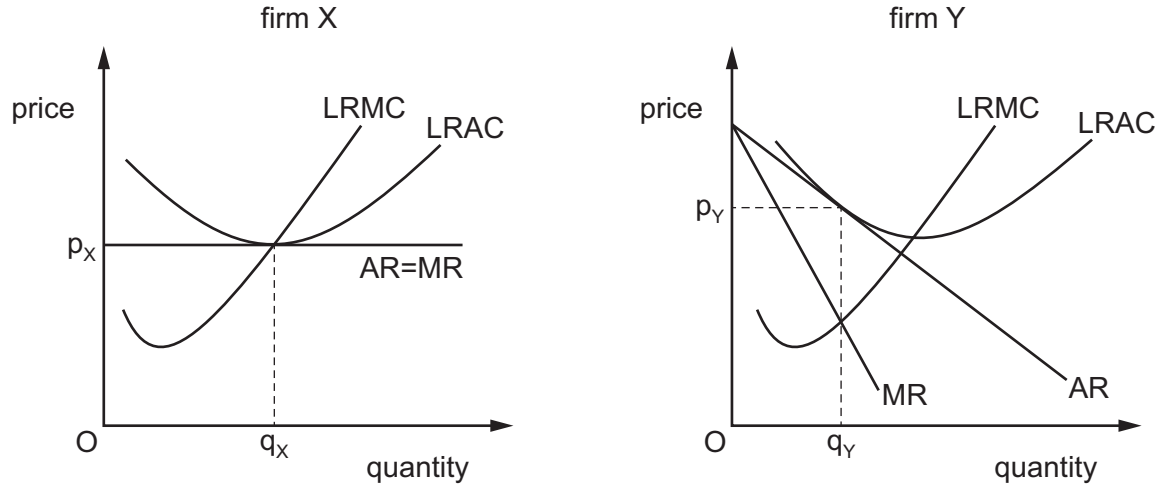
A A new firm is established in an area and pays its workers higher wage rates than other firms.

B The flowers planted by a householder in his garden give pleasure to his neighbours.

C The immunisation of children against smallpox reduces the danger of the risk of infection to others.

D The installation of security cameras in a city centre results in an increase in thefts elsewhere.

2 The diagram shows the long-run equilibrium positions for two firms, X and Y.



What can be deduced about the economic efficiency of the two firms?

	firm X		firm Y	
	allocative efficiency	productive efficiency	allocative efficiency	productive efficiency
A	no	yes	yes	yes
B	yes	no	yes	yes
C	yes	yes	no	yes
D	yes	yes	yes	no

3 The production of a good creates a constant marginal external cost at all levels of output.

What value of price elasticity of demand for the good will cause the greatest deadweight welfare loss from the externality?

A between zero and one

B equal to one

C greater than one

D zero

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4 What arises in situations where there are costs or benefits associated with a transaction that are **not** fully reflected in market prices?

A allocative efficiency

B allocative inefficiency

C productive efficiency

D productive inefficiency

5 To maximise the satisfaction she derives from a given level of expenditure on two goods, X and Y, how should a consumer allocate her expenditure between the two goods?

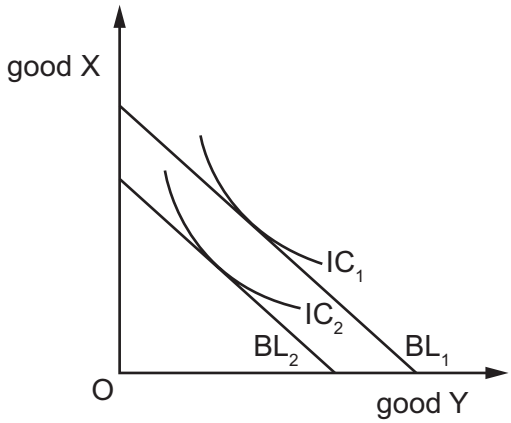
A marginal utility X = marginal utility Y

B marginal utility X $\times$ price of X = marginal utility Y

C $\frac{\text{marginal utility X}}{\text{price of Y}} = \frac{\text{marginal utility Y}}{\text{price of X}}$

D $\frac{\text{marginal utility X}}{\text{marginal utility Y}} = \frac{\text{price of X}}{\text{price of Y}}$

6 The diagram shows the indifference curves (IC) for a consumer for goods X and Y together with the consumer's budget lines (BL).



If the budget line shifts from BL_1 to BL_2, how does this affect the consumer's preferences for goods X and Y when prices remain the same?

A He continues to buy the same amounts of X and Y.

B He prefers to buy fewer of X and fewer of Y.

C He prefers to buy fewer of X and more of Y.

D He prefers to buy more of X and fewer of Y.

7 The price of brand X is $2 and the price of brand Y is $1. The consumer has $20 income to spend on these brands.

Which combinations of the two brands would be points on the same budget line for this consumer?

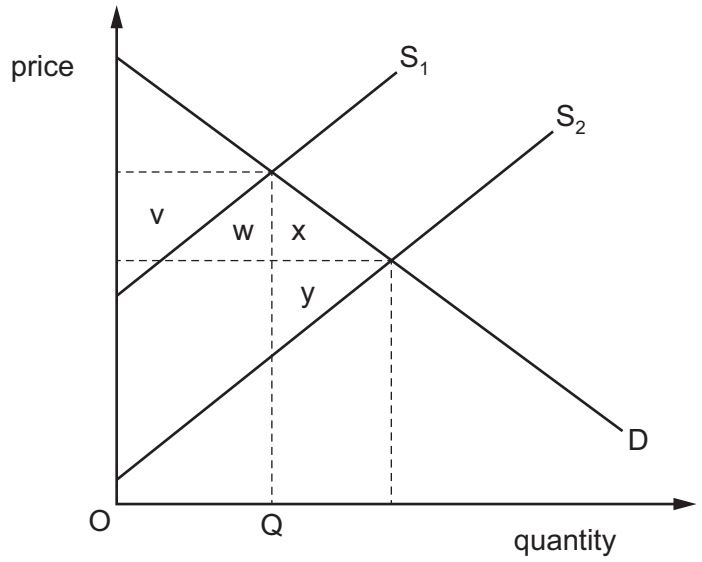
	0 units of X and 20 units of Y	5 units of X and 10 units of Y	10 units of X and 0 units of Y
A	✓	✓	✓
B	✓	✗	✗
C	✓	✗	✓
D	✓	✓	✗

key

✓ = on the same budget line

✗ = not on the same budget line

8 The diagram shows an industry's demand and supply curves. The industry increases supply from S_1 to S_2.

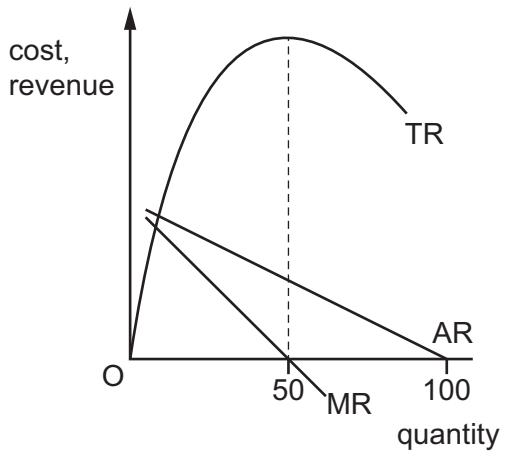


Which area shows the total gain in society's economic welfare?

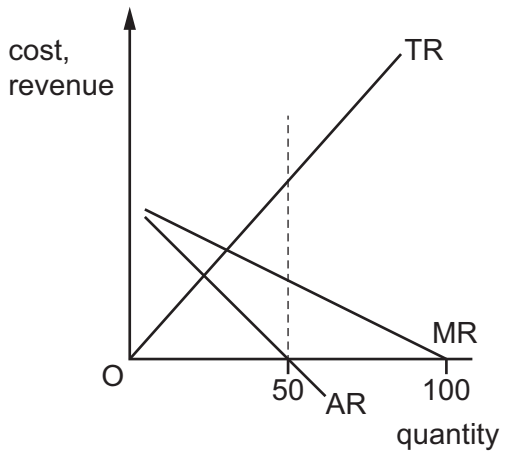
A v + w + x **B** w + x **C** x + y **D** (x + y) – (v + w)

9 Which diagram accurately represents the revenue curves of a producer in imperfect competition?

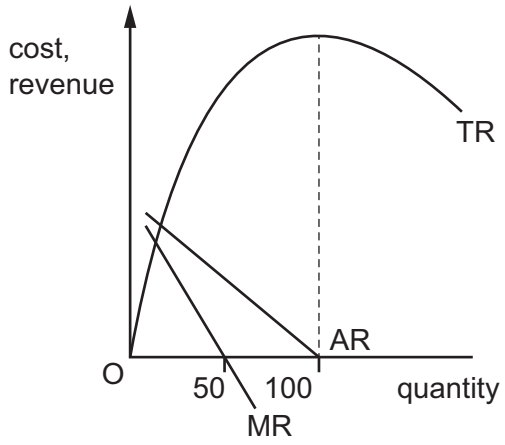
A



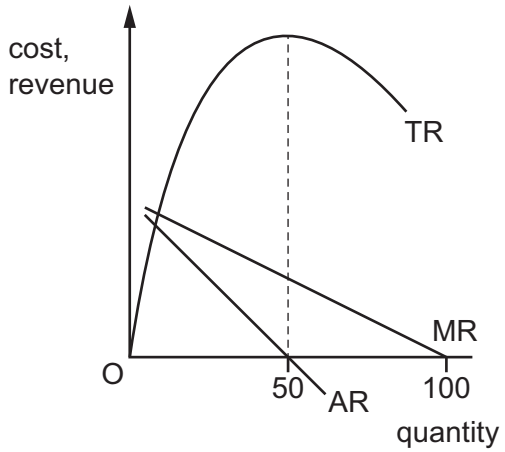
B



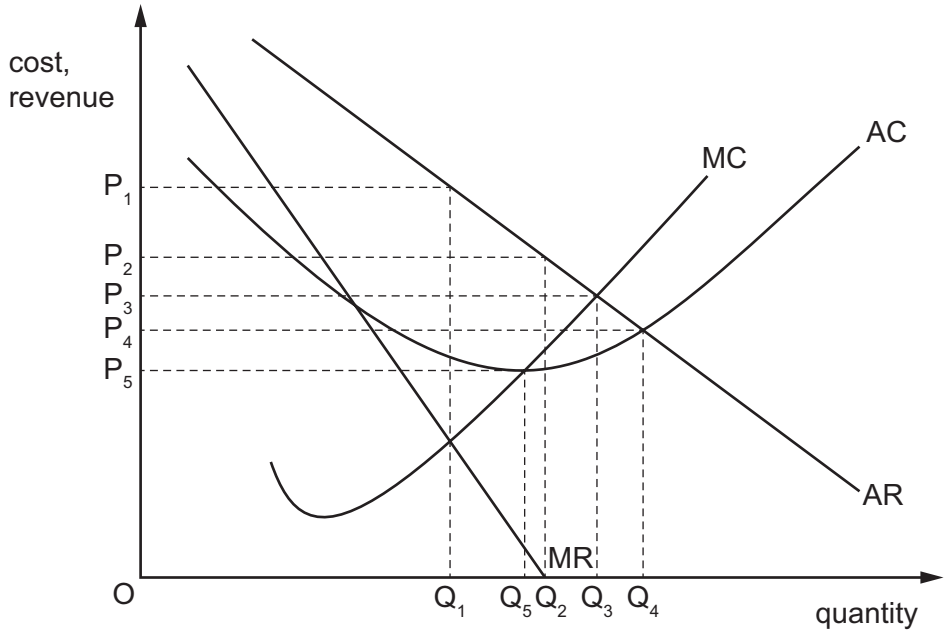
C



D



10 The diagram shows the cost and revenue curves of a firm in a contestable market.



It is currently charging the profit-maximising price OP_1. In order to deter entrants the firm decides to change its aim to sales maximising.

What price will achieve this new aim?

A OP_2 **B** OP_3 **C** OP_4 **D** OP_5

11 The table shows details of mergers (purchases and sales) involving UK companies in 2015 and 2016.

year	transactions abroad by UK companies				transactions in the UK by foreign companies			
	purchases		sales		purchases		sales	
	number	value £m	number	value £m	number	value £m	number	value £m
2015	170	25 561	42	16 852	145	33 335	35	7451
2016	135	16 665	43	15 898	227	187 418	39	4807

What can be concluded from the data?

A Purchasing activity abroad by UK companies increased from 2015–2016.

B Purchasing activity by UK companies exceeded purchasing activity by foreign companies.

C Purchasing activity by UK companies exceeded sales activity in both years.

D The value of sales by foreign companies increased from 2015–2016.

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12 What would explain an increase in the size of an industry and a fall in the average output of the firms in an industry?

A an advance in communication methods which reduce coordination problems within firms

B an advance in technology which increases the cost advantage of capital-intensive methods of production

C an increase in barriers to entry into the industry combined with an increase in barriers to exit from the industry

D an increase in external economies of scale combined with a decrease in internal economies of scale

13 Which characteristic would make it easier for firms in an industry to collude?

A a large number of firms

B homogenous products

C low barriers to entry

D rapid technological change

14 A fashion model is paid $500 000 a year.

If the next best paid job he could get is as a teacher at $100 000 a year, what are his transfer earnings and his economic rent?

	transfer earnings $	economic rent $
A	zero	400 000
B	100 000	400 000
C	400 000	zero
D	400 000	100 000

15 Wages in industry X are significantly higher than in industry Y.

What could explain this difference?

A Workers in industry Y are highly mobile.

B Trade union organisation in industry Y is relatively strong.

C Industries X and Y compete with each other for workers.

D Industry Y has non-monetary advantages.

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16 Good X is a popular product that creates a negative externality when it is consumed. Good Y is a more expensive substitute for X with fewer negative externalities when consumed.

The government wants to reduce the consumption of good X significantly but it does not wish to increase its budget deficit.

Under which circumstances is the government most likely to meet its aim?

	government taxes producers of good X	price elasticity of demand for good X	government subsidises producers of good Y	price elasticity of demand for good Y
A	✓	<1	✗	>1
B	✓	<1	✓	<1
C	✓	>1	✗	>1
D	✗	>1	✓	>1

17 Which changes in direct and indirect tax are likely to increase the inequality in the distribution of income in a developed economy?

	direct taxes	indirect taxes
A	fall	remain constant
B	fall	rise
C	rise	fall
D	rise	remain constant

18 A city has a problem with litter on its streets. The city council is considering several measures to reduce the litter.

Which measure to reduce litter would involve the use of 'nudge' theory?

A banning the dropping of litter with heavy fines for people who ignore the ban

B installing signs directing people to new litter bins and thanking them for using the bins

C raising local tax and using the money to employ more people to pick up litter

D removing all litter bins so that people have to take their litter home

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19 The government wants to regulate the consumption of a demerit good in order to increase society's net welfare.

In which situation will society's net welfare increase?

A The fall in the marginal social benefit is greater than the fall in the marginal social cost.

B The fall in the marginal social cost is greater than the fall in the marginal social benefit.

C The fall in the total social benefit is greater than the fall in the total social cost.

D The fall in the total social cost is greater than the fall in the total social benefit.

20 In 2015 New Zealand had a real Gross Domestic Product per capita of $34 762.

Why might this figure **not** be a good indicator of living standards?

A Foreign trade is not included in the figure.

B It does not take into account changes in population.

C It does not take into account inflation.

D There are wide differences in the distribution of income.

21 'The United Nations Development Programme states that economic growth and development will not reduce poverty, improve equality, generate jobs and secure livelihoods unless it is inclusive and sustainable.'

What would it mean if sustainable economic growth were achieved?

A Countries would benefit equally from growth in the global economy.

B Employees in a country would receive the same growth in incomes.

C Future citizens would benefit from economic growth and development.

D Producers in a country would experience the same growth in demand.

22 The table shows information about employment in a country.

year	numbers employed	unemployment rate (%)
2012	10 m	2
2017	11 m	10

What can be concluded from the table about the country in the period 2012 to 2017?

A The dependency ratio rose.

B The number of job vacancies fell.

C The participation rate fell.

D The working population rose.

23 Which type of unemployment results from industrial reorganisation due to technological change?

A cyclical unemployment

B frictional unemployment

C seasonal unemployment

D structural unemployment

24 During a year, a country's national income in money terms increased by 5%, prices increased by 4% and the total population increased by 2%.

What was the approximate change in real income per head?

A a decrease of 1%

B a decrease of 2%

C an increase of 1%

D an increase of 2%

25 Commercial banks in a country hold $50 million in cash but have created $600 million deposits. The central bank raises the cash deposit ratio to 10%.

What will be the outcome?

A Commercial banks will decrease deposits to $500 million.

B Commercial banks will deposit $5 million in the central bank.

C Commercial banks will deposit $10 million in the central bank.

D Commercial banks will increase money in circulation by $5 million.

26 According to Keynesian theory, in which circumstance would there always be an increase in the demand for money?

	real income	price level	interest rates
A	constant	constant	increase
B	constant	decrease	decrease
C	increase	decrease	increase
D	increase	increase	decrease

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27 A country decides to abolish its tariff on imports of copper from Zambia.

Under which circumstances would this benefit Zambia?

A The income elasticity of demand for copper is greater than one.

B The price elasticity of demand for copper is greater than one.

C The price elasticity of demand for copper is less than one.

D The price elasticity of supply for copper is less than one.

28 A small island economy imports most of its raw materials and demand for its exports is price-elastic.

What would be the most likely effect of an appreciation of its currency on its balance of payments on the current account and the rate of inflation?

	balance of payments on the current account	rate of inflation
A	improves	falls
B	improves	rises
C	worsens	falls
D	worsens	rises

29 What will be most likely to rise if unemployment is increasing in an economy?

A the human capital of unemployed workers

B the living standards of all workers

C the nominal money wage rate of employed workers

D the tax burden on employed workers

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30 The table gives some economic indicators for four countries.

Which country is closest to achieving the principal aims of government economic policy?

country	change in GDP (%)	rate of inflation (%)	unemployment (%)	balance of payments (% of GDP)
A	0.47	0.8	3.4	+3.3
B	1.13	0.9	10.5	–0.1
C	1.18	1.1	6.9	–3.3
D	1.45	0.1	4.6	+8.5

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