Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/31**

Paper 3 Multiple Choice **October/November 2020**

1 hour 15 minutes

You must answer on the multiple choice answer sheet.

0238385267

You will need: Multiple choice answer sheet
Soft clean eraser
Soft pencil (type B or HB is recommended)

INSTRUCTIONS

- 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 multiple choice answer sheet.
- Follow the instructions on the multiple choice answer sheet.
- Write in soft pencil.
- Write your name, centre number and candidate number on the multiple choice answer sheet in the spaces provided unless this has been done for you.
- Do **not** use correction fluid.
- Do **not** write on any bar codes.
- You may use a calculator.

INFORMATION

- The total mark for this paper is 30.
- Each correct answer will score one mark. A mark will not be deducted for a wrong answer.
- Any rough working should be done on this question paper.

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1 What is the main aim of cost-benefit analysis?

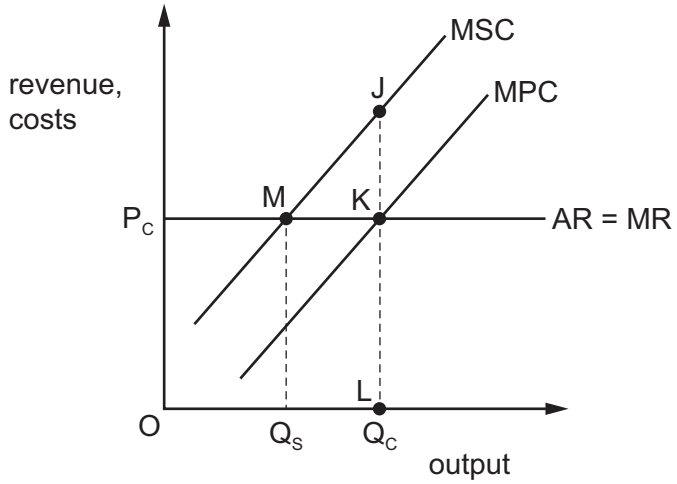
A to allow firms to maximise their private benefit and minimise the external cost

B to equate total social benefit to the total social cost of a project

C to find the correct level of direct tax to internalise the external cost of a project

D to find the highest positive difference between total benefit and total cost

2 The diagram shows a firm in perfect competition that creates pollution.



What represents the external cost?

A JK **B** JM **C** KL **D** MK

3 What is achieved in monopolistic competition in the long run?

	allocative efficiency	supernormal profit
A	no	no
B	no	yes
C	yes	no
D	yes	yes

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4 The table contains data on the total utility gained by a consumer from eating biscuits and chocolates in one day.

biscuits / chocolates eaten	total utility (units)	
	biscuits	chocolates
1	20	10
2	38	20
3	52	32
4	62	38
5	70	42
6	74	42
7	74	40

What can be concluded from the table?

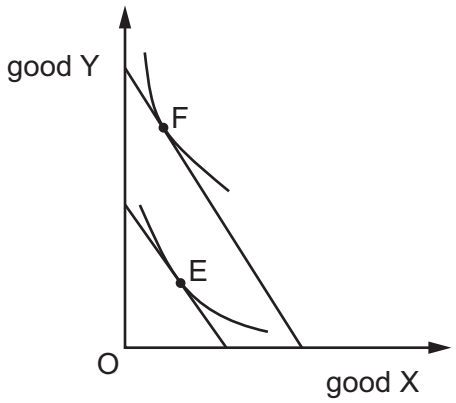
A The consumer gets diminishing marginal utility after eating the first chocolate.

B The consumer gets negative marginal utility from the seventh chocolate eaten.

C The consumer will never eat chocolates if biscuits are available.

D The second biscuit eaten gives the same marginal utility as the fourth chocolate eaten.

5 The indifference curve diagram shows the effect of an increase in income on the consumption of good X and good Y.



Which types of good X and good Y are indicated by the change in consumption from E to F?

	good X	good Y
A	inferior	inferior
B	inferior	normal
C	normal	inferior
D	normal	normal

6 A Chinese firm has total fixed costs of 1000 Yuan. The firm's average variable cost is 10 Yuan and its average total cost is 15 Yuan.

What is the firm's output?

A 10 units **B** 66 units **C** 200 units **D** 5000 units

7 What is **not** a requirement for the law of diminishing returns to operate in the short run?

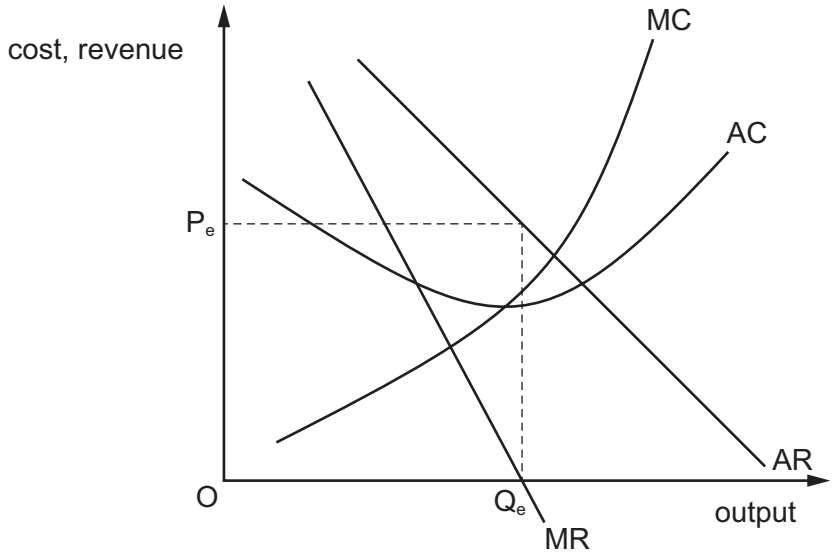
A At least one factor will be fixed in quantity.

B Average returns to a variable factor will increase then fall.

C Marginal product of a variable factor will increase then fall.

D Inputs of all of the factors will be variable.

8 The diagram shows the costs and revenues of a firm that is producing output Q_e with a price P_e.



What would explain this?

A The firm is deliberately selling below cost to keep out potential entrants.

B The firm wants to maximise the volume of sales to gain economies of scale.

C The managers' salaries are related to revenue rather than to profits.

D The managers want to have a large team working for them to increase their status.

9 What is necessary for price discrimination to be profitable in different markets?

A There must be many buyers.

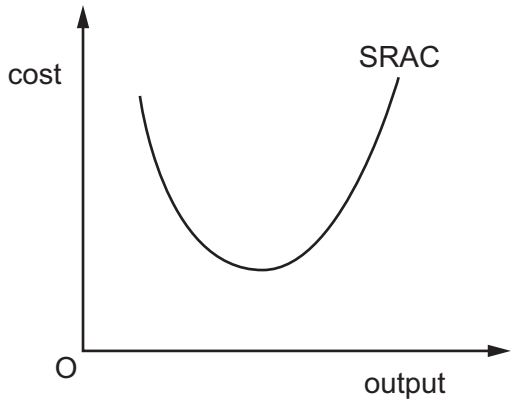
B There must be markets with different price elasticities of demand.

C There must be product differentiation.

D There must be geographically separate markets.

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10 The diagram shows a firm's short-run average cost curve.



What explains the shape of the curve?

A the law of diminishing marginal utility

B the law of variable proportions

C fixed costs exceeding variable costs

D technical diseconomies

11 A firm successfully engages in a policy of predatory pricing.

What will happen to the prices charged by the firm in the short run and in the long run?

	prices in the short run	prices in the long run
A	rise	rise
B	rise	fall
C	fall	rise
D	fall	fall

12 Which is **not** a reason for the existence of small firms in a market dominated by large companies?

A Small firms can concentrate on providing specialist services.

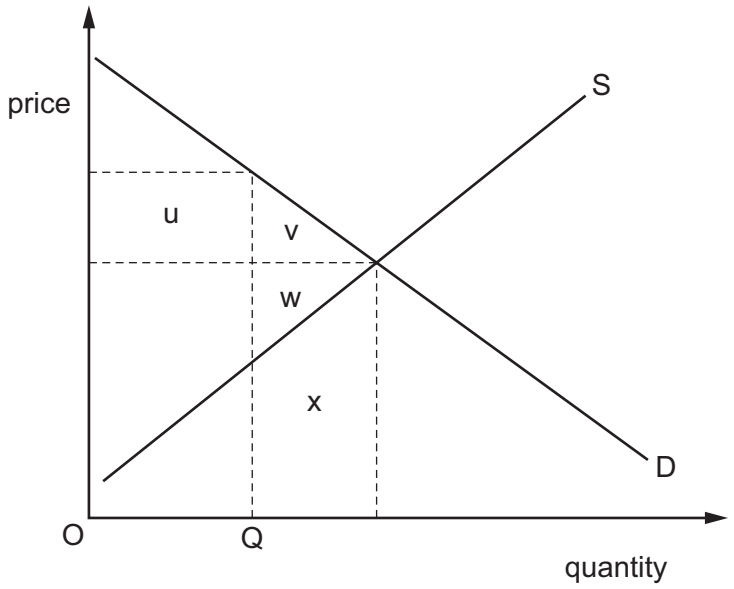
B Small firms enjoy greater economies of scale.

C Small firms enter the market with new innovative ideas.

D Small firms have good knowledge of local markets.

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13 The diagram shows an industry's supply and demand curves.



In the absence of externalities, which area in the diagram measures the net loss in economic welfare if the government restricts the level of output to OQ?

A u + v **B** v + w **C** x **D** v + w + x

14 In 2007 the United Kingdom's government banned cigarette smoking in enclosed public spaces, such as offices, shops, bars and restaurants.

What is a government failure arising from this ban?

A decreased consumption of cigarettes by smokers

B decreased levels of passive cigarette smoking by non-smokers

C increased litter from used cigarettes outside offices and shops

D increased sales of cigarette substitutes like nicotine patches and gum

15 When does a more equal distribution of income occur?

A when a country's income tax system is made more progressive

B when someone is made better off without making someone else worse off

C when the best use is made of scarce resources

D when there is an increase in the Gini coefficient

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16 What is likely to improve the occupational mobility of labour?

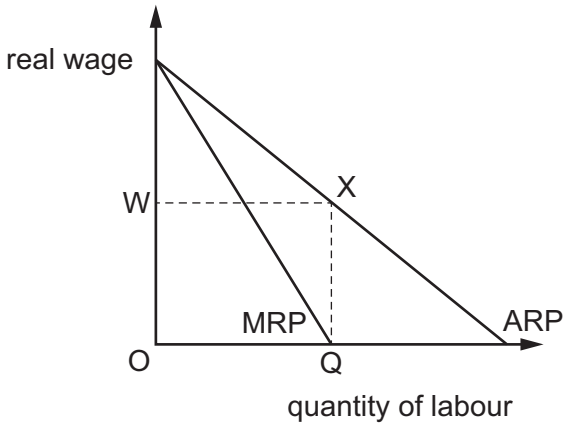
A a decrease in income tax that increases aggregate demand

B a decrease in unemployment benefit

C an increase in retraining schemes for the unemployed

D more advertising of employment vacancies in the economy

17 The diagram represents a situation where a trade union has negotiated a wage, OW, for its members. The level of employment is OQ.



What do the trade union members maximise in this situation?

A their economic rent

B their leisure hours

C their level of employment

D their total amount paid in wages

18 What is **not** included in the Human Development Index?

A infant mortality rates

B gross national income per capita

C life expectancy at birth

D mean years of schooling

19 Under what circumstances will low wages and low-cost land in a developing country **not** attract foreign investment in manufacturing?

A if the developing country creates genuine independence for their central banks

B if the developing country embarks on a programme of privatisation

C if the developing country lacks well-developed infrastructure

D if the developing country permits repatriation of profits

20 An individual was temporarily unemployed but found a job quickly.

What type of unemployment is this?

A cyclical unemployment

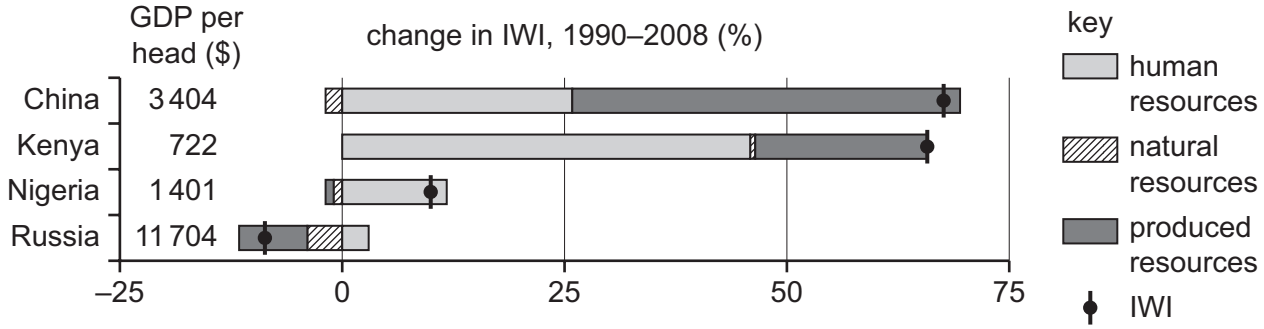
B frictional unemployment

C seasonal unemployment

D structural unemployment

21 In 2012 a United Nations report calculated the stock of wealth of 20 countries in terms of human, natural and produced resources. This was measured as the Inclusive Wealth Index (IWI).

The diagram shows the annual percentage (%) change in the IWI between 1990 and 2008 of four economies. It also shows their 2008 GDP per head ($).



What can be concluded from the diagram?

A A low level of GDP per head meant an inability to build stocks of wealth.

B All countries were able to prevent depletion of their natural resources.

C The faster the growth in a country's IWI the higher was its GDP.

D There was an increase in human resources in all four countries.

22 What would represent a monetarist anti-inflationary policy?

A an increase in indirect taxation

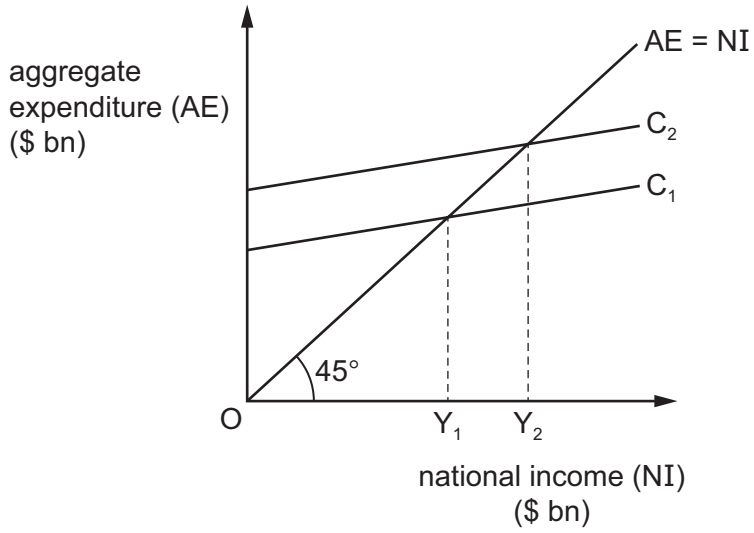
B direct foreign exchange rate intervention

C the introduction of maximum prices

D the sale of securities on the open market

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23 The national income / expenditure diagram shows changes in consumption expenditure (C).



What would cause the consumption function to shift from C_1 to C_2?

A a minimum deposit introduced for credit purchases

B an increase in direct taxation

C an increase in the rate of interest

D the expectation of an increase in indirect taxes

24 According to the accelerator theory, what would cause investment in an economy to be lower than in the previous year?

A a lower marginal propensity to consume than in the previous year

B a lower marginal propensity to save than in the previous year

C a smaller fall in national income than occurred in the previous year

D a smaller rise in national income than occurred in the previous year

25 Which correctly identifies net leakages from a country's circular flow of income?

	private sector S > I	government sector T > G	trade sector X > M
A	no	no	no
B	no	no	yes
C	yes	yes	no
D	yes	yes	yes

26 A central bank sells securities on the open market.

What does Keynesian theory predict will occur?

A a fall in the price level

B a fall in unemployment

C a rise in the price level

D a rise in the rate of interest

27 What would most likely result from a sustained increase in real GDP in an economy?

A a decrease in the government's budget deficit

B a decrease in output per worker

C an increase in a balance of payments surplus

D an increase in frictional unemployment

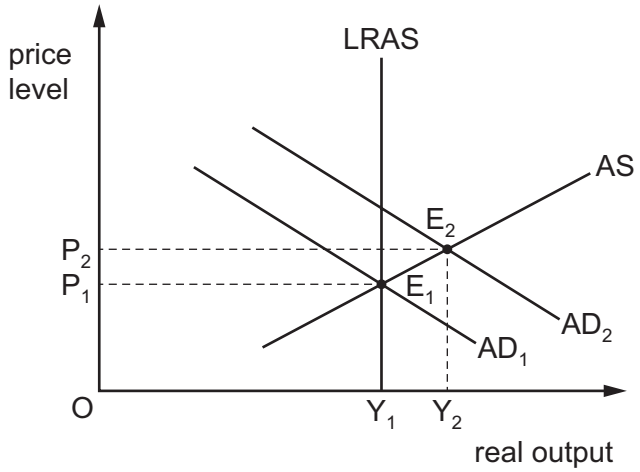
28 The table shows combinations of statements associated with Keynesian and Monetarist schools of thought.

Which combination is correct?

	Keynesian	Monetarist
A	crowding out effect prevents private sector investment	controlling the money supply controls inflation
B	fiscal policy is best for economic growth	wages are flexible
C	reducing inflation is more important than reducing unemployment	reducing unemployment is more important that reducing inflation
D	wages are sticky downwards	controlling aggregate demand controls inflation

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29 The diagram shows an economy in short-run equilibrium with price level P_2 and output level Y_2.



Which combination is most likely to be achieved in the economy at the equilibrium point E_2?

	macroeconomic policy aim	macroeconomic policy aim
A	reduced current account deficit	increased international competitiveness
B	reduced rate of inflation	reduced exchange rate
C	increased level of employment	increased per capita income
D	increased economic growth	reduced environmental degradation

30 A government sets a target for the annual rate of inflation to be no more than 3%.

Which circumstances would make it difficult to achieve the target?

A if devaluation of the currency leads to a trade surplus

B if interest rates are increased to control effective demand

C if the government increases its budget surplus

D if wage increases are kept in line with productivity

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