Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/33**

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

1 hour 15 minutes

You must answer on the multiple choice answer sheet.

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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[Turn over

1 Which statement is correct?

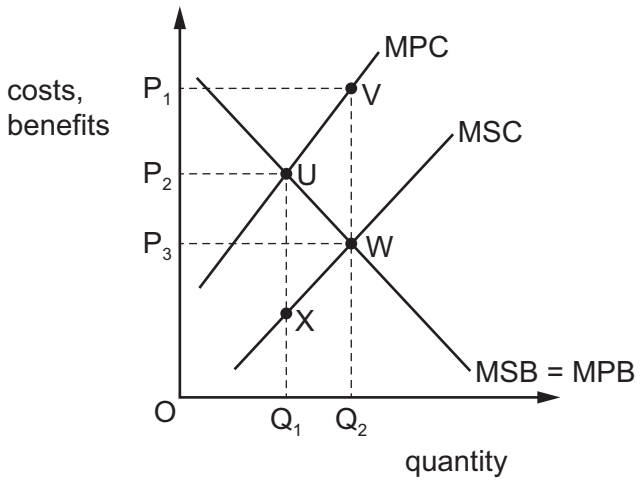
A marginal social benefit = marginal private benefit – marginal external benefit

B marginal social cost = marginal private cost + marginal external cost

C negative externality = marginal social benefit – marginal social cost

D positive externality = marginal private benefit

2 The diagram shows the costs and benefits of the production of a good. The firm is operating at output Q_1.



What would be necessary to move the production to the optimal level of output?

A introducing a subsidy of UW

B introducing a subsidy of VW

C setting a maximum price of P_2

D setting a minimum price of P_3

3 Which situation should **not** lead to market failure?

A Managers in a firm have information unavailable to shareholders.

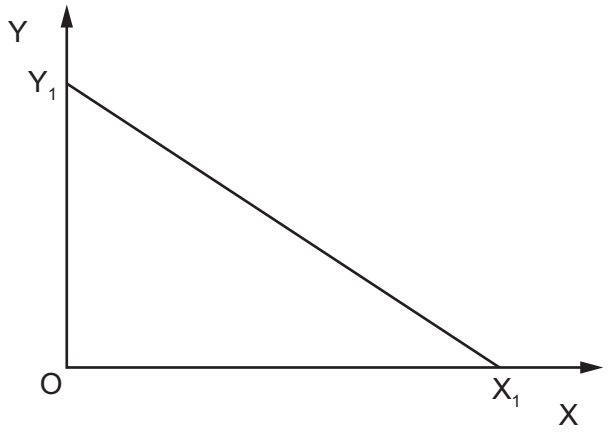
B Resources such as solar energy can be continuously renewed.

C Resource allocation is not always Pareto efficient.

D Undesirable goods are overproduced.

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4 The diagram below shows a customer's budget line for two goods, X and Y.



Assuming the price of X does not change, the slope of the budget line will become steeper when:

A the consumer's income falls.

B the consumer's income rises.

C the price of Y falls.

D the price of Y rises.

5 A consumer maximises his utility by spending all his income on goods X and Y. New research reveals that good X is a merit good providing the consumer with more utility than was previously realised. The consumer's income and the prices of goods X and Y are unchanged.

If the consumer behaves rationally, how will he respond to the findings of the research?

	quantity of good X purchased	quantity of good Y purchased
A	decreases	increases
B	increases	decreases
C	increases	unchanged
D	unchanged	increases

6 The table shows a firm's total and marginal costs.

output	total cost ($)	marginal cost ($)
1	200	20
2	215	15
3	225	10
4	240	15
5	260	20

What is the average fixed cost of producing 6 units?

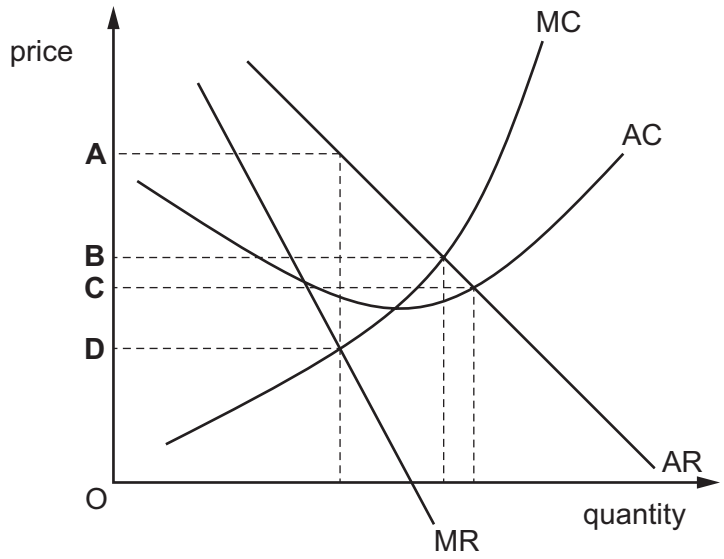
A $20 **B** $30 **C** $180 **D** $200

7 Which combination indicates monopolistic competition?

	freedom of entry	product	demand curve
A	high barriers	differentiated	downward sloping
B	high barriers	unique	downward sloping
C	low barriers	differentiated	downward sloping
D	low barriers	homogenous	horizontal

8 The diagram shows the costs and revenues of a profit-maximising cartel.

What is the equilibrium price?



9 Diagram 1 shows the total cost curve for a firm. Diagram 2 shows possible marginal cost curves.

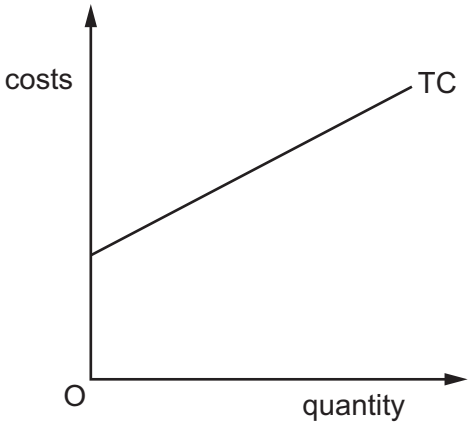


diagram 1

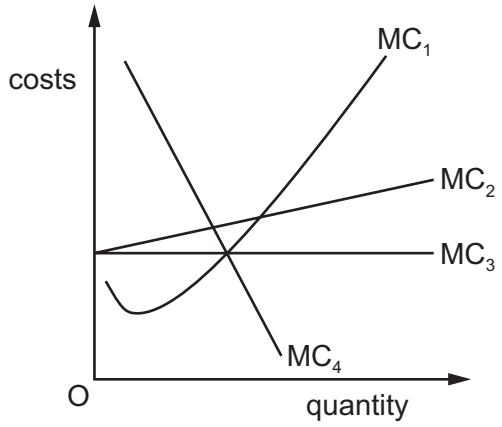


diagram 2

Which marginal cost curve is consistent with the total cost curve?

A MC_1 **B** MC_2 **C** MC_3 **D** MC_4

10 Two manufacturing firms in the same industry, producing similar products, are considering merging together.

What would be the least convincing reason for merging?

A It would enable greater bargaining power when buying raw materials.

B It would enable technical economies of scale.

C It would produce savings in management and administration costs.

D It would reduce the dependence of the firms on the suppliers of raw materials.

11 The following schedule gives information about a firm's costs.

total variable costs	$6400
average fixed costs	$20
average total costs	$100

Which output would be consistent with these costs?

A 32 units **B** 50 units **C** 64 units **D** 80 units

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12 Which objective involves the managers of a firm operating with just enough profit to keep shareholders happy whilst maintaining sales revenue above its profit-maximising level?

A achieving below normal profit

B maximising the quality of the output

C profit satisficing

D sales revenue maximisation

13 Which measure to reduce the abuse of monopoly power is an example of regulation?

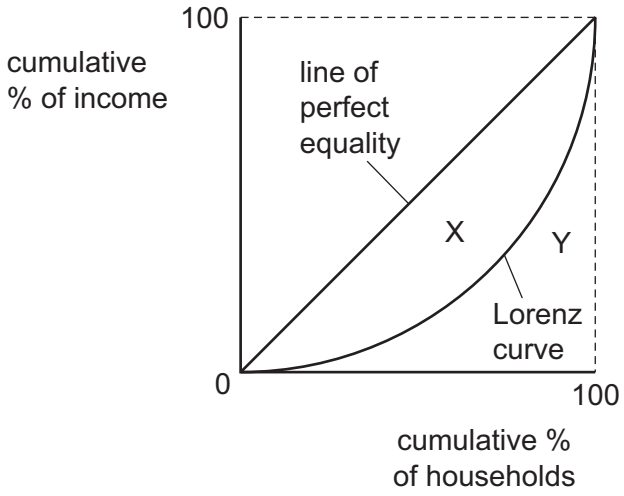
A legislation to forbid price fixing by cartels

B removal of import tariffs

C subsidising small firms

D taxation of monopoly profits

14 The diagram shows a Lorenz curve, with two areas, X and Y, identified.



How is the corresponding Gini coefficient calculated?

A X divided by (X plus Y)

B (X plus Y) divided by X

C (X plus Y) divided by Y

D Y divided by (X plus Y)

15 Which combination of government policies will be most likely to affect inter-generational equity?

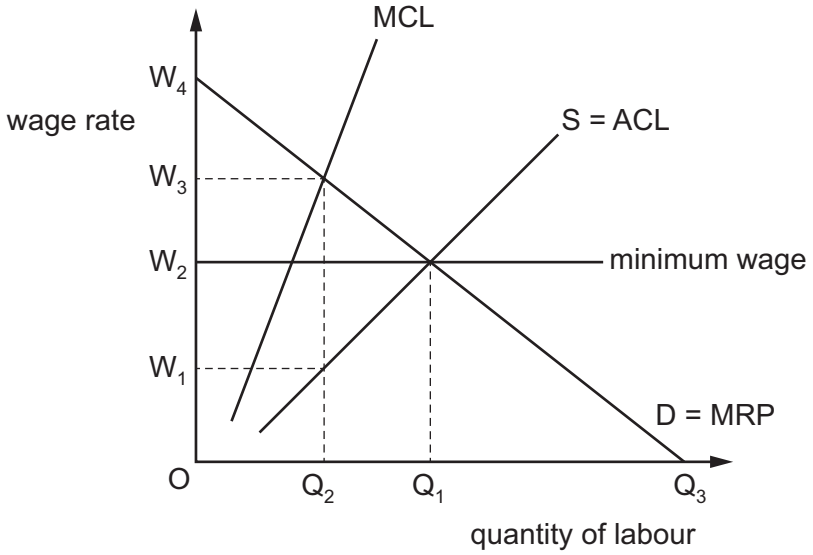
A a fall in overseas aid expenditure and a rise in domestic military spending

B a fall in the top rate of income tax and a rise in the sales tax (VAT) on luxury goods

C a rise in educational maintenance allowances and a fall in state pensions

D a rise in unemployment benefits and a rise in national insurance contributions

16 The diagram illustrates a monopsony labour market in which the government has imposed a minimum wage.



What is the difference between the wage the monopsonist wishes to pay and the wage received by labour?

A W_1W_3 **B** W_1W_2 **C** W_2W_3 **D** W_2W_4

17 Labour is the only variable factor of a profit-maximising firm which is a price-taker in the labour market.

From what is the firm's demand curve for labour derived?

A its marginal factor cost curve

B its marginal revenue curve

C its marginal revenue product of labour curve

D its short-run marginal cost curve

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18 A developing country receiving foreign financial aid is most likely to experience economic growth in the long run if it uses the money to:

A boost welfare benefits for the poorest households.

B pay for imports of capital goods.

C reduce environmental pollution.

D reduce income tax for all households.

19 The Multidimensional Poverty Index uses benchmarks to measure the severity of poverty.

Which country suffers most from deprivation in health and living standards compared with deprivation of education?

	country	deprivation contribution to overall poverty (%)		
		education	health	living standards
A	Bangladesh	28.4	26.1	45.5
B	Burkino Faso	39.0	22.5	38.5
C	Lesotho	14.8	33.8	51.4
D	Yemen	29.5	32.2	38.2

20 Which is the most accurate statement about developing economies?

A A possible dependency on primary products for export revenues means that developing economies are reliant on the industrialised world for manufactured products.

B High levels of capital per head mean that developing economies must rely on overseas trade if they are to achieve higher growth rates.

C High real GDP per head, plus high rates of population growth, reduce the ability of developing economies to increase their standard of living.

D Migration of labour from rural to urban areas is of significance only if it results in labour shortages in the rural economy.

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21 A benefit of foreign direct investment (FDI) is better training for local workers leading to improved human capital and large productivity increases.

A disadvantage is that additional income gained is sent back to the country from which the FDI came.

How would these changes affect the aggregate demand and aggregate supply curves?

	aggregate demand curve	aggregate supply curve
A	shift left	shift left
B	shift right	shift left
C	shift left	shift right
D	shift right	shift right

22 A director becomes redundant as the result of a company merger. His salary was $80 000.

In his first year after redundancy he earns $60 000 in consultancy fees, $10 000 in dividends on shares, and saves $8000 by dismissing his gardener.

What is the resulting change in measured national income in the first year?

A + $70 000 **B** + $60 000 **C** – $80 000 **D** –$18 000

23 What reduces the value of the multiplier?

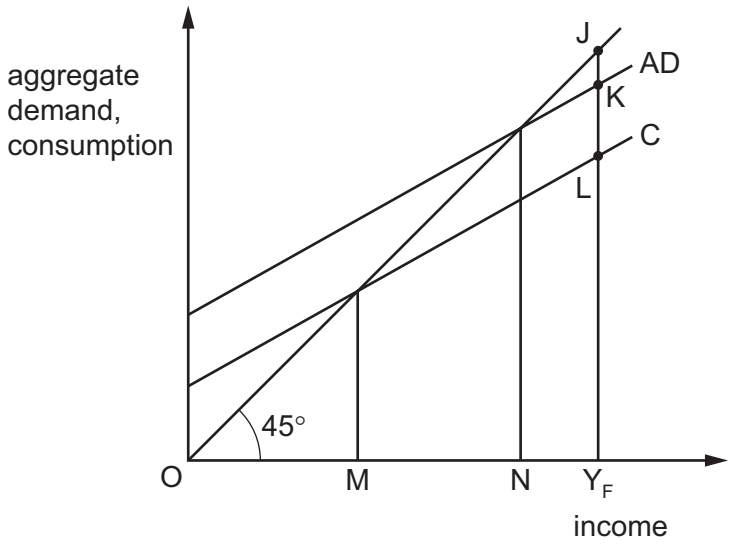
A an increase in government investment expenditure

B an increase in consumption

C an increase in the rate of taxation

D an increase in the volume of exports

24 The diagram shows a closed economy in which the full employment level of income is Y_F.



Which distance measures the deflationary gap?

A JK **B** JL **C** NY_F **D** MY_F

25 The table shows national income statistics for an economy.

item	US dollars ($) billion
income from wages	300
consumption expenditure	400
investment expenditure	200
government expenditure	400
value of exports	300
value of imports	400

What is the value of aggregate demand, in billions of dollars?

A 900 **B** 1200 **C** 1300 **D** 2000

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26 What can be deduced directly from the calculation of the national income?

A the balance of payments position

B the pattern of production in the economy

C the distribution of income among the population

D the standard of living in the country

27 Which condition for macroeconomic equilibrium is correct?

A $G - T = S + I + X - M$

B $I - S = G - T + M - X$

C $M - X = I - S + G - T$

D $X - M + G = S + I - T$

28 What describes a Keynesian measure to reduce cyclical unemployment?

A adopting a supply-side policy to retrain unskilled workers

B allowing the private sector to take over the supply of merit goods

C increasing the ratio of capital equipment to manual labour in production

D using fiscal policy to increase effective demand

29 An economy imports most of the factors of production used in the manufacture of its exported goods.

What effect would depreciation of this economy's rate of exchange have?

	price of imported goods in the domestic currency	price of exported goods in the domestic currency
A	fall	fall
B	fall	rise
C	rise	fall
D	rise	rise

30 Which policy is most likely to lead to a reduction in the natural rate of unemployment?

A an increase in government expenditure on goods and services

B an increase in government expenditure on training schemes to address skill shortages

C an increase in the period when the unemployed are eligible for welfare benefits

D an increase in the minimum wage

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