Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/31**

Paper 3 Multiple Choice **October/November 2021**

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.
- Any rough working should be done on this question paper.

This document has **12** pages. Any blank pages are indicated.

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1 What is a necessary condition required to achieve Pareto efficiency?

A when it is not possible for some people to become better off without others becoming worse off

B when it is possible to produce greater output with the same quantity of inputs

C when resources have spare capacity

D when resources can be re-allocated and total consumer satisfaction can be increased

2 What is an example of a negative externality?

A the non-provision of public goods by the market

B indirect taxation that fails to internalise the external cost

C monopoly power leading to reduced output and a higher price

D the production of a good that has a harmful effect on a third party

3 A government deregulates several industries with the aim to increase allocative and productive efficiency.

Which change makes it **less** likely that the government will meet its aim?

A an increase in the availability of cheap loans to start new businesses

B an increase in merger and takeover activity in the industries

C an increase in information about prices for consumers available on the internet

D a reduction in fixed costs in the deregulated industries

4 A rational consumer maximises satisfaction by buying three units of good X and four units of good Y which are the same dollar price.

What does this indicate?

A Marginal utility per dollar spent is equal for both goods.

B The total utility of 3X is equal to the total utility of 4Y.

C The consumer should buy one more unit of good X to maximise utility.

D Good Y has greater marginal utility than good X.

5 What does a budget line on an indifference curve diagram show?

A the amount that a household has available to spend plotted against time

B the combinations of two goods that can be purchased when all income is spent

C the difference between a government's income and expenditure plotted against time

D the relationship between the price of a good and the amount demanded

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6 Firm X, which currently specialises in producing cars, takes over firm Y, which owns a number of car retail outlets.

How may this be described?

A horizontal integration

B the formation of a cartel

C vertical integration backwards

D vertical integration forwards

7 In large cities there are streets where many sellers of similar hot foods compete for sales.

Which type of market structure does this represent?

A monopoly

B monopolistic competition

C oligopoly

D perfect competition

8 A firm always operates with economies of scale in the long run.

What is the shape of its long-run average cost curve?

A It is horizontal.

B It is 'U' shaped.

C It slopes downwards.

D It slopes upwards.

9 A multinational firm seeks to minimise costs and maximise profits.

What would **least** assist the multinational to achieve these objectives?

A achieving a near monopoly status to control outputs and prices

B locating the firm's home base in a country with a low level of corporation tax

C operating as a member of a cartel with production quotas

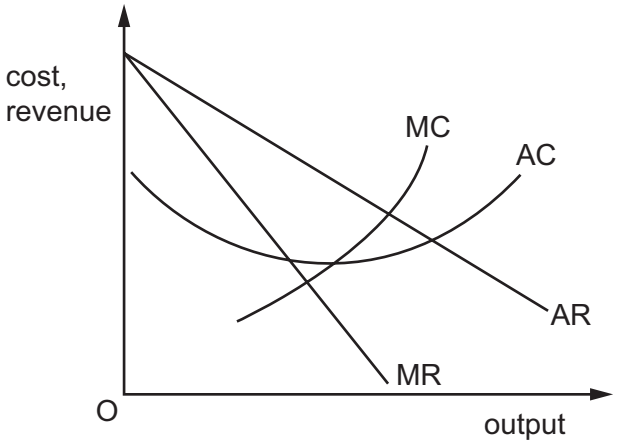
D owning subsidiary firms in different countries to achieve economies of scale

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10 What is the most likely combination of income elasticity of demand and price elasticity of demand that explains why a firm can make higher profits in specialised luxury product markets?

	income elasticity of demand	price elasticity of demand
A	high	high
B	high	low
C	low	high
D	low	low

11 The diagram shows a firm's cost and revenue curves.



The firm embarks on a single successful $100 million advertising campaign.

How will this affect its costs and revenue curves?

	MR curve	AR curve	MC curve	AC curve
A	shifts to right	shifts to right	shifts up	unchanged
B	shifts to right	shifts to right	unchanged	shifts up
C	unchanged	unchanged	shifts up	unchanged
D	unchanged	unchanged	unchanged	shifts up

12 In which circumstances are a firm's objectives most likely to differ from profit maximisation?

A when a firm finances new investment largely by retained profits

B where firms are companies with very active shareholders

C where investment banks make takeovers easy to implement

D when a firm has many shareholders and is managed by employees

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13 Which combination of policies is most likely to reduce the inequality of the income distribution?

	direct tax	indirect tax	availability of benefit
A	decrease	decrease	decrease
B	decrease	increase	increase
C	increase	decrease	increase
D	increase	increase	decrease

14 To tackle pollution, some governments set standards, such as production limits, while others use tradeable pollution permits.

What is a correct comparison of the two approaches?

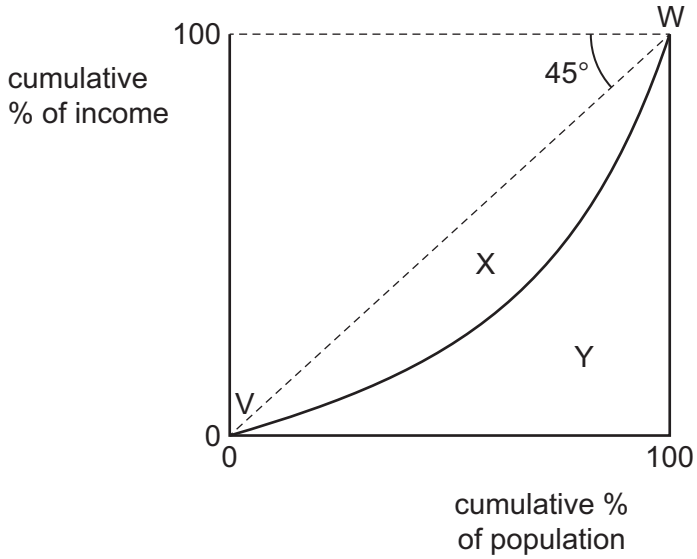
A Standards give more incentive for continued pollution reduction.

B Standards make greater use of the market mechanism.

C Tradeable pollution permits are simpler to devise and administer.

D Tradeable pollution permits provide a more equitable treatment of firms.

15 The diagram shows an economy's Lorenz curve (VW).



The area of Y is three times bigger than the area of X.

What is the value of the economy's Gini coefficient?

A $\frac{1}{3}$ **B** $\frac{1}{4}$ **C** $\frac{3}{4}$ **D** $\frac{4}{3}$

16 What will **not** shift the demand curve for labour to the right?

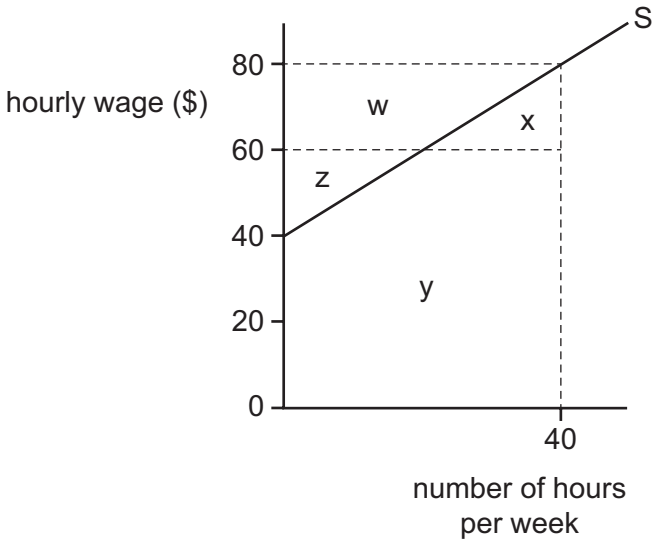
A improvement in marginal productivity of labour

B increase in demand for the product

C increase in the price of the product

D increase in the wage rate

17 The diagram shows an individual's supply of labour curve.



He is offered a job which would require him to work a standard 40-hour week.

Which area measures the amount he would need to get him to accept this job offer?

A w + z **B** x + y **C** x + y – z **D** w + x + z + y

18 The aggregate demand in country X is calculated by the equation AD = C + I + (X – M).

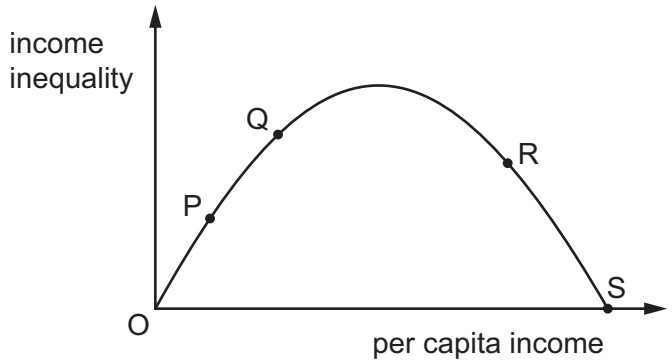
Four students are asked to fill in the two gaps in the following sentence describing the economy of country X.

'Country X is .....1..... economy .....2..... a government.'

Which student is correct?

	gap 1	gap 2
A	a closed	with
B	a closed	without
C	an open	with
D	an open	without

19 The diagram shows the Kuznets curve.



Which statement is correct with respect to the description of an economy and the corresponding letter on the Kuznets curve?

A P is a market economy.

B Q is a developed economy.

C R is a developing economy.

D S is an economy with a Gini coefficient = 0.

20 When measuring the value of total output of a country, economists use the concept of value added.

What could explain this?

A They want to avoid double counting.

B They want to avoid the impact of inflation.

C They want to find the value of the hidden economy.

D They want to include indirect taxes and subsidies.

21 A government uses personal disposable income per head as a measure of the standard of living.

What does this measure **not** take into account?

A changes in the average price level

B the level of direct taxation

C the level of national income

D the size of the population

22 Which policy would be most likely to increase employment?

A decreasing duties on imports

B decreasing unemployment benefits

C increasing income tax

D increasing interest rates

23 Low income countries that approached the IMF for loan assistance were usually required to introduce structural adjustment programmes (SAPs) which involve policies to promote a free-market economy.

Which action would have been included in a SAP?

A deregulation of agricultural markets

B extension of food subsidies

C nationalisation of water supply

D restrictions and regulations on the flow of international capital

24 In a closed economy with no government there is an initial equilibrium level of national income of $500 billion. The economy's households always spend a constant fraction of every $1 of income they receive. When investment spending increases by $20 billion the economy moves to a new equilibrium level of national income of $600 billion.

What is the marginal propensity to consume of the economy's households?

A 0.20 **B** 0.80 **C** 0.83 **D** 1.00

25 The Keynesian theory states that the demand for money (M^d) is influenced by the personal level of income (L_1) and by the rate of interest (L_2) so that

$$M^d = L_1 (Y) + L_2 (r)$$

What do L_1 and L_2 represent in the aggregate demand for money function?

	L_1	L_2
A	precautionary motive	transactions motive
B	speculative motive	transactions and precautionary motives
C	transactions and precautionary motives	speculative motive
D	transactions motive	precautionary motive

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26 What are the assumptions made by Keynesians in relation to wages and investment?

	wages	investment
A	flexible	interest rates elastic
B	flexible	interest rates inelastic
C	not flexible	interest rates elastic
D	not flexible	interest rates inelastic

27 What are the characteristics of most developing economies?

	ratio of government debt to GDP	average propensity to save
A	high	high
B	high	low
C	low	high
D	low	low

28 Money given by the US government to certain African countries to fight AIDS/HIV requires their governments to purchase expensive drugs from the US rather than cheaper products from South Africa, India or Brazil.

What is this an example of?

A bilateral aid

B debt relief

C multilateral aid

D tied aid

29 Why do economists draw a distinction between economic development and economic growth?

A because a country's stage of economic development depends on its level of output rather than its growth rate

B because it is the allocation rather than the overall level of a country's resources which determines its economic well-being

C because of the concern about quality of life rather than quantity of output

D because the prime determinant of economic development is investment rather than consumption

30 In an economy operating below full employment, which combination of changes will definitely result in an increase in national income?

A a fall in the rate of taxation together with a rise in the saving rate

B a rise in government expenditure together with a fall in the propensity to import

C a rise in investment expenditure together with a rise in the rate of taxation

D a rise in the propensity to save together with a rise in exports

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