Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/33**

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

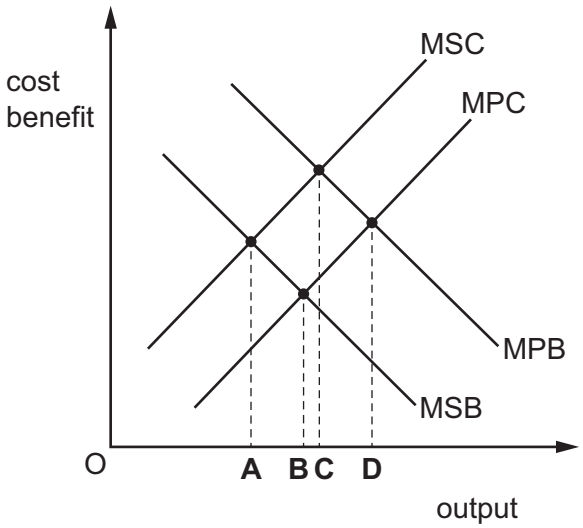
- The total mark for this paper is 30.
- Each correct answer will score one mark.
- Any rough working should be done on this question paper.

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[Turn over

1 The diagram shows the private and social marginal costs and benefits of a demerit good.

What is the socially optimal level of output?



2 Why are public goods an example of market failure?

A Producers undervalue the benefits of a public good.

B Public goods have high fixed costs of production.

C The non-excludability of a public good leads to the free rider problem.

D When a public good is consumed by one person, it is not available to others.

3 A government plans to build a new railway line. One proposed route will pass close to residential areas causing increased noise levels. An alternative shorter route will pass through a nature reserve causing environmental damage but saves travel time for rail users.

In using cost–benefit analysis, which combination shows what should be included as private cost (PC) and what should be included as external costs (EC)?

	the cost of building the railway line	the increased noise levels
A	EC	PC
B	EC	EC
C	PC	EC
D	PC	PC

4 What is held constant when deriving an individual consumer's downward-sloping demand curve for a product?

A marginal utility

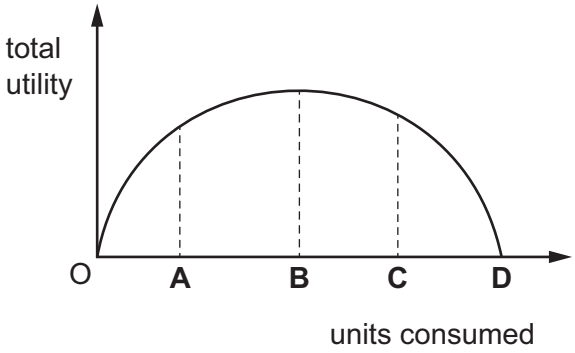
B the consumer's income

C the price of the product

D total utility

5 The diagram shows an individual's total utility curve as different quantities of a good are consumed.

At which level of consumption does the individual's marginal utility become zero?

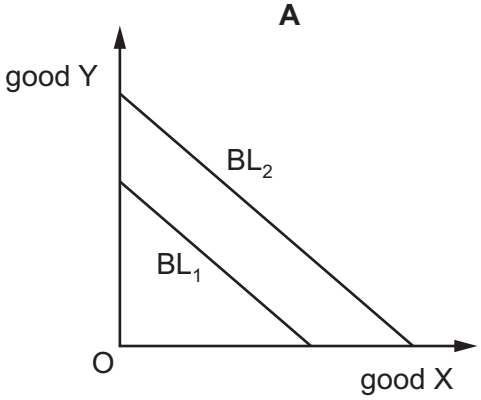


6 The diagrams show changes in a consumer's budget line (BL) for two goods.

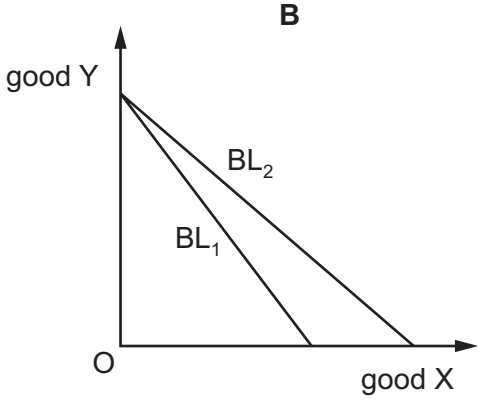
The government increases the price of both goods by imposing a sales tax of 25%.

Which diagram shows the effect of this tax?

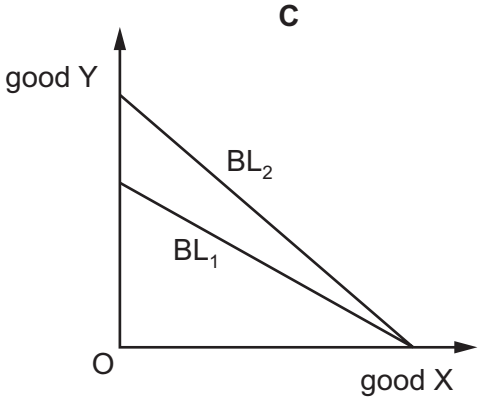
A



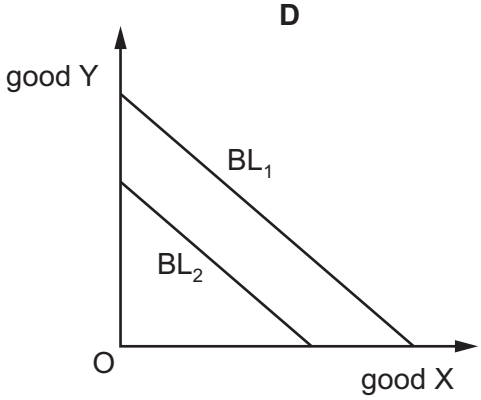
B



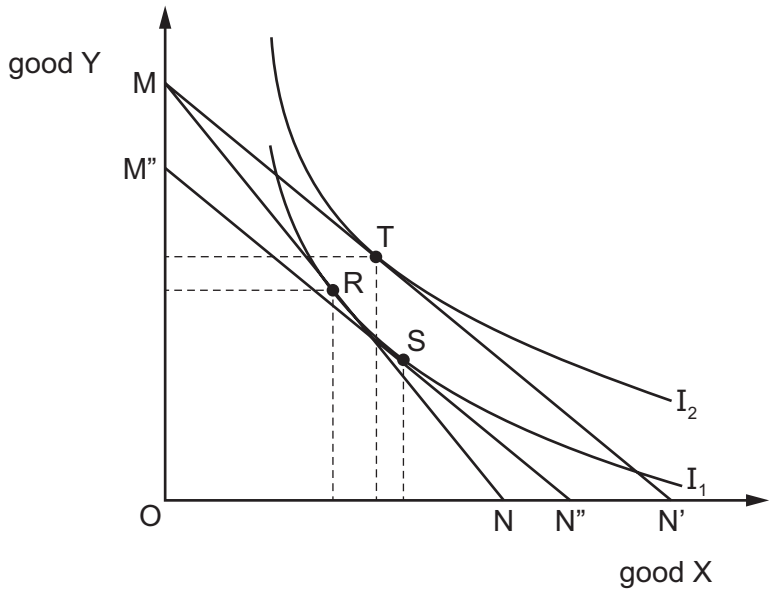
C



D



7 A consumer demands two goods, X and Y. The consumer's initial equilibrium is at R and final equilibrium at T. The indifference curve diagram shows the effect of a fall in the price of good X and the resulting income and substitution effects.



What can be concluded from the diagram about the nature of good X and the nature of its relationship with good Y?

	nature of good X	relationship between good X and good Y
A	inferior	complements
B	inferior	substitutes
C	normal	complements
D	normal	substitutes

8 A perfectly competitive firm is producing a level of output where average cost is lower than marginal cost.

What are the effects on these costs if output increases by one unit?

	average cost	marginal cost
A	falls	falls
B	falls	rises
C	rises	falls
D	rises	rises

9 What is most likely to pose a threat to the survival of small local bread producers?

A an increase in the cost per minute of television advertising

B a switch in consumer preferences to cheaper mass-produced bread

C diseconomies of scale in the process of bread production

D increased congestion on road networks

10 Firms in a market advertise their products with different brand names. Some make more profit than others in the short run but all make normal profit in the long run.

Which market structure is this?

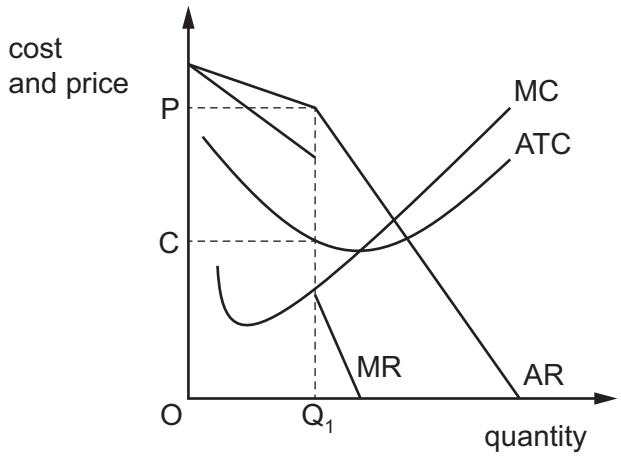
A perfect competition

B monopolistic competition

C oligopoly

D monopoly

11 The diagram shows the marginal cost (MC), marginal revenue (MR), average revenue (AR) and average total cost (ATC) curves of a profit-maximising firm in an oligopolistic market.



What is the reason why the oligopolist would **not** want to increase their price above P?

A Demand is relatively elastic, meaning the firm would see a reduction in total revenue.

B Demand is relatively elastic, meaning the firm would see an increase in total revenue.

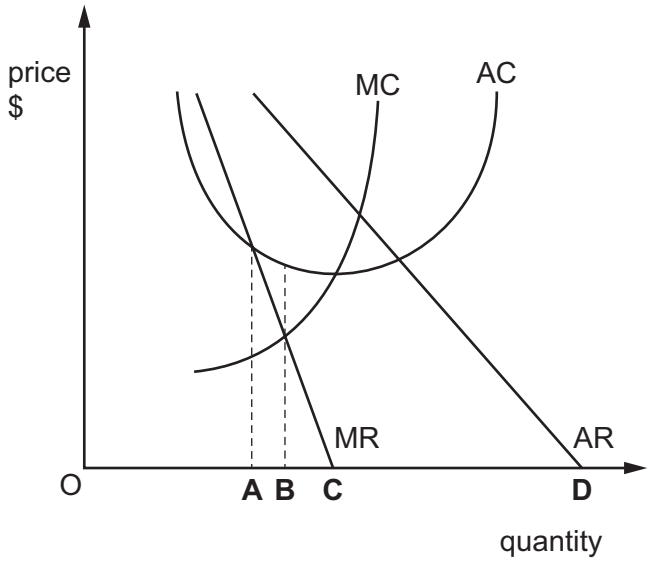
C Demand is relatively inelastic, meaning the firm would see a reduction in total revenue.

D Demand is relatively inelastic, meaning the firm would see an increase in total revenue.

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12 The diagram shows the cost and revenue curves for a firm in an imperfectly competitive market.

What is the revenue maximising output of the firm?



13 Governments introduce different policies to achieve a more efficient use of energy.

Which policy is **least** likely to achieve this objective?

A a limit to the amount by which energy prices can increase

B an increase in the tax on energy usage

C energy pricing policies that reflect the full social costs of energy use

D subsidies to suppliers of products designed to save energy

14 A report in the UK suggests that means-tested benefits (benefits that are paid depending on income) should be introduced for benefit payments to the elderly and that any money saved should be used to pay means-tested benefits to young adults. This is because some elderly people now have high levels of real income.

Which outcome is **most** likely?

A Equality amongst young adults will decrease.

B Equality amongst the elderly will decrease.

C Intergenerational equality will increase.

D There will be an increase in transfer payments.

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15 What is defined as 'the payment made to a factor of production over and above that necessary to keep the factor in its present use'?

A economic rent

B normal profit

C opportunity cost

D transfer earnings

16 As the number of workers employed by a firm increases, the marginal product of labour decreases but remains positive.

What happens to the firm's total output?

A It stops increasing.

B It increases at a constant rate.

C It increases at a falling rate.

D It increases at a rising rate.

17 What will cause the supply curve of labour in a particular industry to shift to the left?

A a fall in demand for the industry's product

B a greater use of machinery in the production of the industry's output

C a rise in wages paid in similar occupations in other industries

D a weakening of trade union influence in the industry

18 What does an output gap show?

A the difference between actual output and long-run potential output

B the difference between actual output and output when labour is fully employed

C the difference between the maximum output in a boom and the minimum output in a recession

D the difference between the minimum output in a boom and the maximum output in a recession

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19 GNP per head in a country has increased by 10% over the past 5 years.

What is **not** a valid reason to doubt whether average living standards have also risen by the same amount?

A The distribution of income may have changed considerably over the period.

B The general price level is likely to have changed over the period.

C The size of the population may have changed over the period.

D The workforce may have produced greater output by working for more hours per week.

20 The Human Development Index is a measure of economic development.

What is included in this index?

	child mortality per thousand population	GNI per capita at $PPP	life expectancy at birth	mean years of schooling
A	✓	✗	✓	✓
B	✓	✓	✗	✗
C	✓	✗	✓	✓
D	✗	✓	✓	✓

21 What would increase structural unemployment in the manufacturing sector of the US?

A Asian exporters of manufactured goods to the US experience a fall in labour costs per unit of output.

B Tariffs on Asian manufacturing imports increase.

C The percentage of US manufacturing employees belonging to a trade union falls.

D The US dollar's real effective exchange rate against the Asian currencies falls.

22 Governments have a range of policy options available to them to reduce unemployment.

Which statement is correct?

A A government cannot reduce seasonal unemployment.

B Changing interest rates is the best way a government can reduce the natural rate of unemployment.

C Changing the exchange rate will not reduce demand-deficient unemployment.

D Supply-side policies can be used by a government to reduce frictional unemployment.

23 What is **not** considered to be an injection into the circular flow of income of an economy?

A a rise in exports of financial services

B firms investing in new production techniques

C increased government spending on health services

D spending on hotels and entertainment by tourists visiting another country

24 The table shows the nominal GDP growth rate and annual inflation rate in four countries, W, X, Y and Z.

	nominal GDP growth rate (%)	annual inflation rate (%)
W	2.1	1.9
X	–1.6	8.9
Y	4.1	5.8
Z	–2.0	16.4

What can be concluded from the table?

A W experienced the highest rate of real economic growth.

B X and Z experienced deflation.

C Y experienced the greatest rise in the standard of living.

D Z experienced the greatest growth in public debt.

25 What identifies net injections into a country's circular flow of income?

	I > S	X < M	G < T
A	yes	no	no
B	yes	no	yes
C	no	yes	no
D	no	yes	yes

26 In a closed economy with no government there is an equilibrium level of national income of $1000 billion. The households always spend 80% of the income they receive.

If full employment occurs when national income is $1200 billion, by how much must aggregate demand initially change to close the economy's deflationary gap?

A –$200 billion **B** –$40 billion **C** +$40 billion **D** +$200 billion

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27 According to Keynesians, the demand for money is negatively correlated with the interest rate.

Which motive for holding money best accounts for this relationship?

A income motive

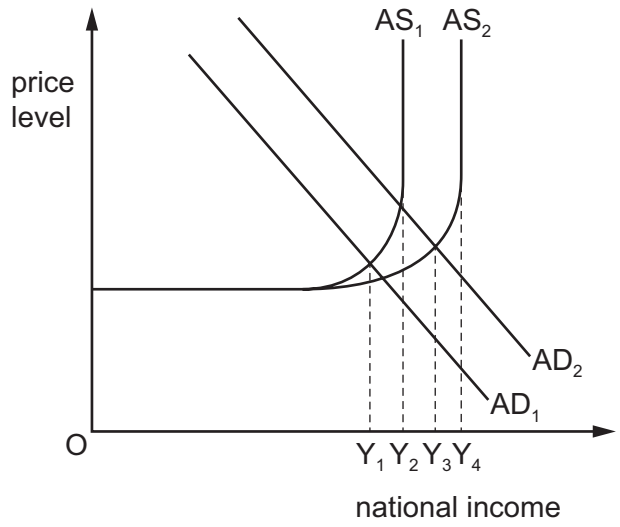
B precautionary motive

C speculative motive

D transactionary motive

28 The diagram shows aggregate demand (AD) and aggregate supply (AS).

There is a change from AD_1 to AD_2 and from AS_1 to AS_2.



As a result, the equilibrium level of national income changes from:

A Y_1 to Y_3. **B** Y_1 to Y_4. **C** Y_2 to Y_3. **D** Y_2 to Y_4.

29 The table gives an economy's unemployment rate and inflation rate for a five-year period.

year	unemployment rate %	inflation rate %
2010	7.6	2.6
2011	6.2	1.6
2012	5.8	1.8
2013	5.9	2.0
2014	5.8	2.0

Which change between consecutive years was in agreement with the Phillips curve analysis?

A 2010–2011

B 2011–2012

C 2012–2013

D 2013–2014

30 The Consumer Prices Index (CPI) fell by 3% in a year. Unemployment was regarded as unacceptably high.

Which combination of policies would a government be most likely to adopt in such circumstances?

A an appreciation of the currency, together with an increase in the rate of interest

B increased government expenditure on education, together with an increase in taxes to pay for it

C increased indirect taxes, together with a depreciation in the exchange rate

D reduced income taxes, together with a cut in the rate of interest

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