Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/31**

Paper 3 Multiple Choice **October/November 2022**

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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1 In an economy, no-one can be made better off without making someone else worse off.

What can be deduced from this?

A Individuals are the best judges of their own well-being.

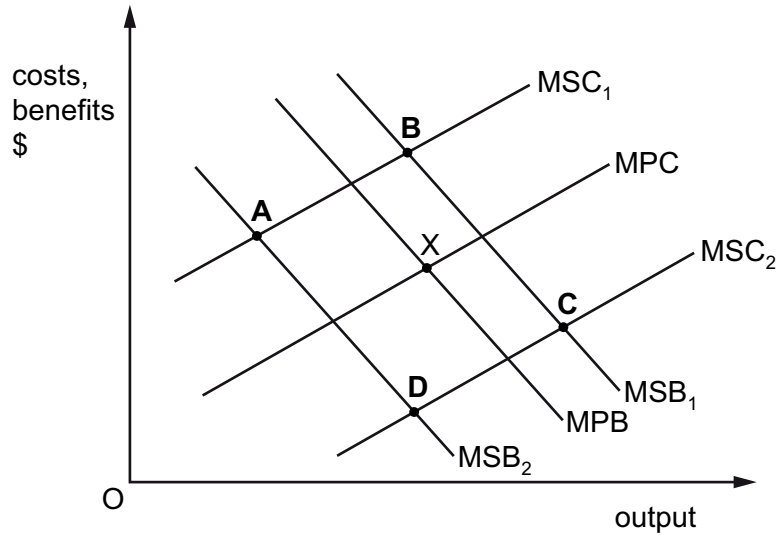
B Individuals can be relied upon to behave rationally.

C The distribution of income is socially optimal.

D The economy's resources are allocated efficiently.

2 The diagram shows the costs and benefits of producing a good. The good has negative externalities in production and positive externalities in consumption. The free market equilibrium is at point X.

What is the new equilibrium point when the externalities are taken into consideration?



3 The Airports Commission in the UK recommended an expansion of airport X rather than airport Y.

In considering the social costs and benefits of this decision, what would be taken into account when calculating the external cost?

A the additional noise pollution suffered by residents local to airport X

B the financial loss suffered by airlines operating at airport Y

C the increase in profits of the firm operating airport X

D the monetary cost of the construction to expand airport X

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4 What is a correct statement of the equi-marginal utility rule?

A The marginal utility of X must equal the marginal utility of Y.

B The marginal utility of X divided by the price of X must equal the marginal utility of Y divided by the price of Y.

C The marginal utility of X divided by the price of Y must equal the marginal utility of Y divided by the price of Y.

D The price of X must equal the price of Y.

5 Which statement is correct?

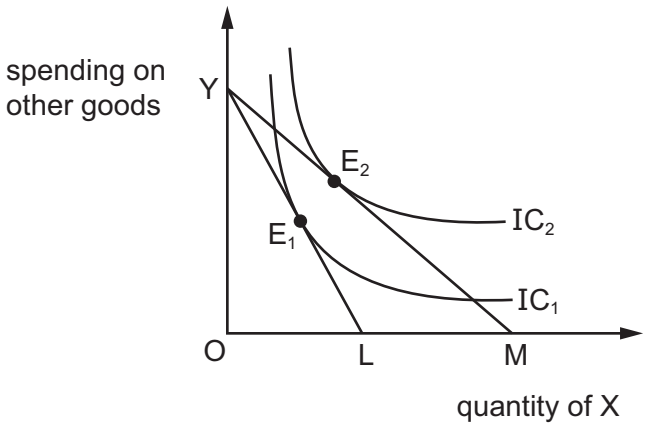
A A budget line shows the combinations of two goods which can be bought with a given income.

B A budget line shows the combinations of two goods which a consumer wants to buy.

C A budget line shows the difference between income and expenditure.

D A budget line shows the maximum potential output of two goods with given resources.

6 In the diagram, YL and YM show two budget lines for a consumer of a product, X, when its price changes. IC_1 and IC_2 are two indifference curves, representing the consumer's preferences between product X and spending on other goods.



What is **not** a valid statement?

A Product X must be a Giffen good, since the consumer spends more on other goods after the price change.

B The consumer has greater satisfaction at E_2 than at E_1.

C The prices of other goods are assumed to be held constant when drawing the budget lines.

D The shift from YL to YM represents a fall in the price of product X.

7 The list provides characteristics of the market in which firm X operates.

- Firms in the market spend a lot of money on advertising.
- Firms in the market experience a high level of uncertainty.
- Start-up costs for new firms entering the market are relatively high.
- The largest five firms in the market control 85% of total sales.

In which market structure is firm X operating?

A monopoly

B monopolistic competition

C oligopoly

D perfect competition

8 What explains why, in long-run equilibrium in monopolistic competition, firms make only normal profits?

A consumer resistance

B decreasing returns to scale

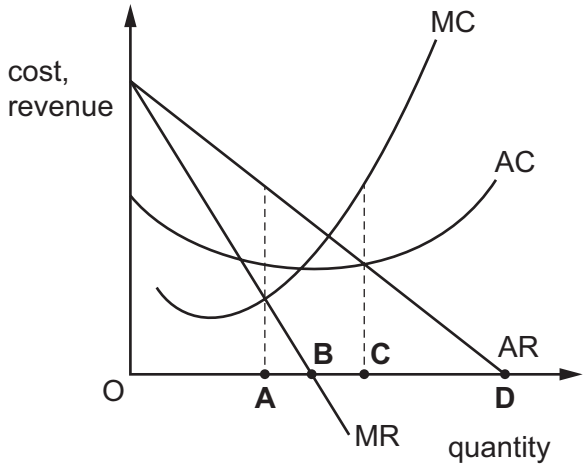
C differentiated products

D freedom of entry and exit

9 The diagram shows four possible output levels of a firm.

At its current level of output, the firm's product has a price elasticity of demand of exactly –1.

Which output is the firm selling?



10 Which conditions enable price discrimination?

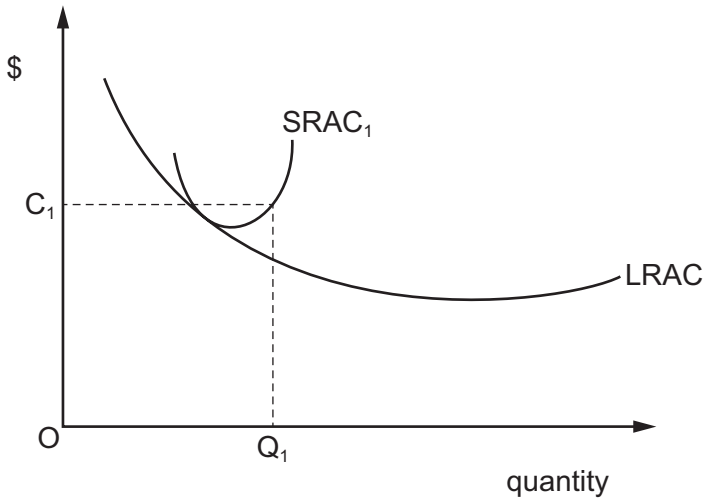
1 The firm can separate the total market into different sub-markets.

2 There are different price elasticities of demand (PED) in each separate sub-market.

3 The marginal revenue curve is the same in each separate market.

A 1 and 2 only **B** 1 and 3 only **C** 2 and 3 only **D** 1, 2 and 3

11 The diagram shows a firm producing at Q_1 on short-run average cost $SRAC_1$.



Which strategy will achieve the greatest reduction in average costs at this output?

A increasing its fixed factors of production only

B increasing its fixed and variable factors of production

C reducing its fixed factors of production only

D reducing its fixed and variable factors of production

12 Which change would make it easier for a cartel to operate effectively?

A an increase in competition from closely related industries

B an increase in the number of firms in the industry

C an increase in the range of products made by cartel members

D an increase in the stability of the market for its products

13 Some workers in a low-paid job decide to work longer hours to increase their disposable income. However, this decision reduces state-provided benefits, leaving them worse off.

What does this describe?

A debt trap

B liquidity trap

C poverty trap

D unemployment trap

14 What indicates that nationalisation has taken place?

A a firm buys supplies locally rather than from international sources

B a firm moves from private ownership to state ownership

C a firm restricts ownership of its shares to citizens of its own country

D a firm switches sales to the domestic market from the international market

15 Too many flights in the airline industry cause unnecessary damage to the environment.

Which measure is **most** likely to result in the socially optimal number of flights?

A a complete ban on flights removing all private and external costs

B greater deregulation of the global airline industry

C publishing information to highlight the negative effects of flying on the environment

D the payment of a subsidy per passenger equal to the difference between the private and social benefit

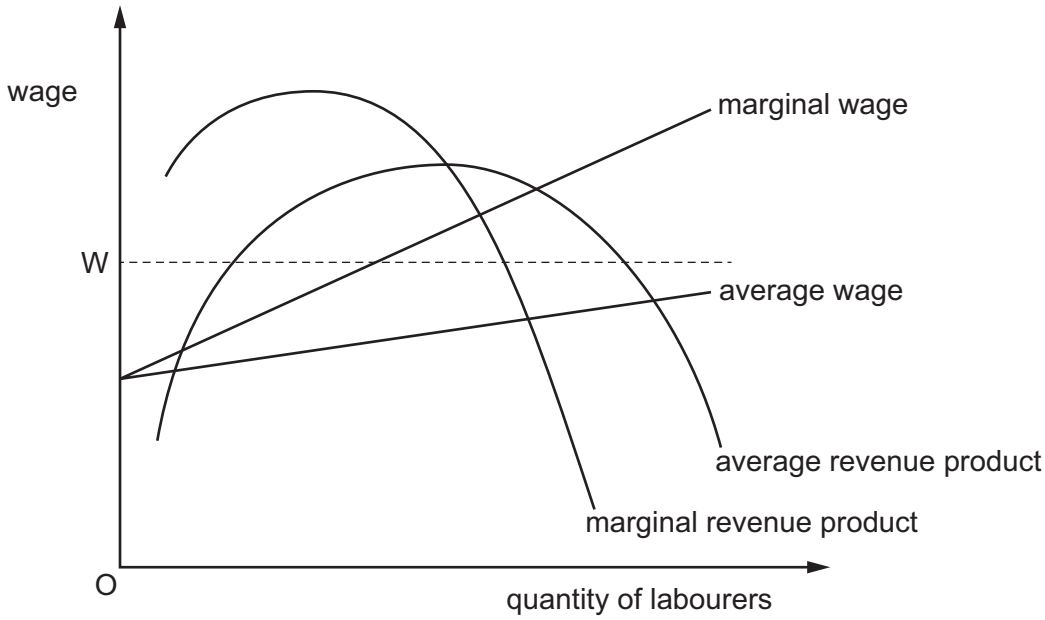
16 A government is worried about the increasing monopsony power of employers in the wage bargaining process.

Which policy combination is **most** likely to improve the wages and employment prospects of workers?

	trade union powers	immigration controls	national minimum wage
A	strengthen	relax	cut
B	strengthen	strengthen	raise
C	weaken	relax	cut
D	weaken	strengthen	raise

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17 The diagram shows the labour market for fruit pickers in country X.



If the market was originally in equilibrium, what would happen to wages and employment if a minimum wage of W were imposed?

	wages	employment
A	fall	fall
B	fall	rise
C	rise	fall
D	rise	rise

18 What would **not** be regarded as an example of a possible negative impact of rapid economic growth?

A Greater production could result in greater atmospheric pollution.

B A higher level of income could cause a higher balance of trade deficit.

C Increased AD could cause domestic inflation to increase.

D Increased GDP could generate greater tax receipts.

19 How can GDP at market prices be calculated if GDP at factor cost is known?

A add taxes, add subsidies

B add taxes, subtract subsidies

C subtract taxes, add subsidies

D subtract taxes, subtract subsidies

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20 Which combination indicates that GDP per capita is likely to be an accurate indicator of living standards in a country over time?

	income distribution	hidden economy as % of GDP	quality of goods and services produced
A	equal	large	constant
B	unequal	large	improving
C	equal	small	improving
D	unequal	small	constant

21 Which statement about unemployment is correct?

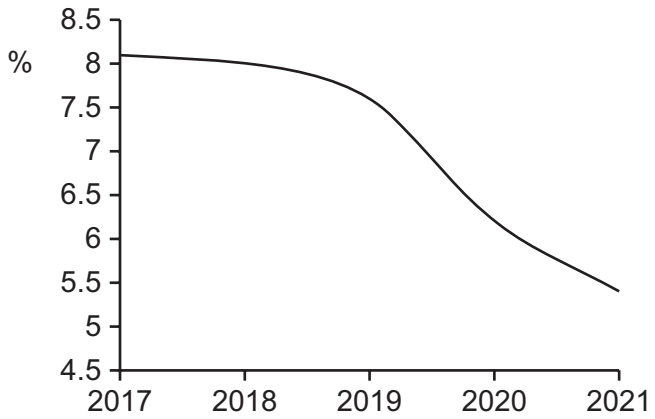
A Cyclical unemployment is caused by the occupational immobility of labour.

B Frictional unemployment is caused by a lack of information on jobs in the labour market.

C Structural unemployment is caused by a deficiency in aggregate demand.

D Voluntary unemployment is caused by variations in the demand for labour in the year.

22 The graph shows the percentage unemployed in a country for the period 2017–2021.



What is the **most** likely cause of the change in unemployment?

A a reduction in government expenditure

B a reduction in interest rates

C a reduction in investment by firms

D a slowdown in growth in the global economy

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23 What is the definition of liquidity?

A the ability of the foreign exchange market to buy foreign currency

B the support a central bank provides for commercial banks

C the ease with which an asset can be converted into cash

D the reaction of governments to a global financial crisis

24 What will decrease if an open economy experiences a positive output gap?

A general price level

B import spending

C spare capacity

D wage rates

25 Which statement does **not** correctly characterise the Monetarist view of the way in which the economy operates?

A Inflation is always caused by increases in the money supply in the long run.

B The long-run aggregate supply curve is vertical in shape.

C The velocity of circulation of money is highly unstable.

D Wages are flexible both upwards and downwards.

26 In an economy, the marginal propensity to consume is 0.2, the marginal propensity to save is 0.3, the marginal propensity to tax is 0.3 and the marginal propensity to import is 0.2 at all levels of income.

What would be the most likely consequence of an increase in government expenditure of $1000m?

A Import expenditure would increase by $200m.

B Import expenditure would increase by $1000m.

C Tax revenues would increase by $75m.

D Tax revenues would increase by $375m.

27 A developing (low-income) economy is heavily dependent on the production of primary products. A multinational car manufacturing company invests in the country and builds a new factory.

What will **not** be a long lasting benefit of the company's investment in the developing economy?

A The company introduces new technology to the economy.

B The company provides diversification of production for the economy.

C The company provides skills training for local workers.

D The company purchases non-renewable local construction materials for the factory.

28 An economy adopts an expansionary monetary policy to boost employment. A result of this policy is that the consumer price index rises at an accelerating rate.

Which curve could represent this?

A Kuznets curve

B Laffer curve

C Lorenz curve

D Phillips curve

29 A government wishes to increase economic efficiency in the country. It raises the rate of income tax which leads to the emigration of high-earning skilled workers that the country needs.

How would this outcome be described?

	government failure	market failure	negative externality
A	no	no	yes
B	no	yes	no
C	yes	yes	no
D	yes	no	no

30 An economy is operating at full employment.

Which policy is **most** likely to lead to an increase in real national output without an increase in the rate of inflation in the short term?

A additional spending on subsidies to increase export earnings

B the central bank introduces quantitative easing

C labour market reforms result in increased output per hour worked

D the government reduces income tax rates

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