Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/32**

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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[Turn over

1 What is **most** likely to improve the allocative efficiency of a market?

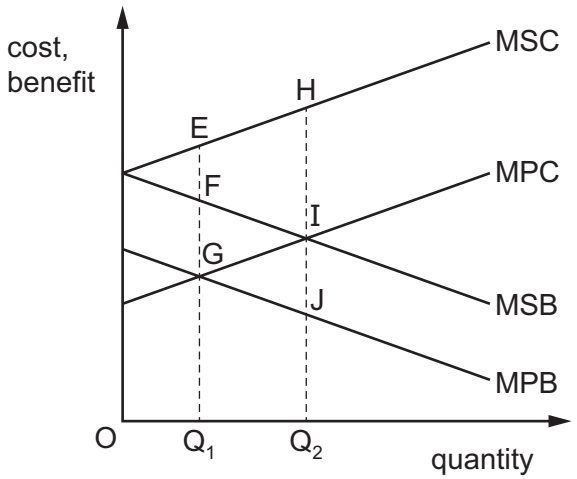
A a higher market concentration ratio

B collusion between firms in the market

C entry of new firms into the market

D mergers of firms in the market

2 The diagram shows a market in which there are negative externalities of production and positive externalities of consumption.



What is the marginal external cost at the free market equilibrium level of output?

A EG **B** EF **C** FG **D** HI

3 What could be included in a cost-benefit analysis of a project to build a road bridge connecting an island community to the mainland?

	a fall in employment for ferry services	an increase in carbon emissions	a reduction in travel time for work	an increase in incomes for the community
A	yes	no	no	yes
B	yes	yes	no	no
C	yes	yes	yes	yes
D	no	no	yes	yes

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4 The table shows the levels of total and average utility at different levels of a consumer's weekly consumption of a product.

number consumed per week	total utility	average utility
1	4	4.0
2	9	4.5
3	15	5.0
4	20	5.0
5	24	4.8
6	27	4.5

After which level of weekly consumption does the diminishing marginal utility first occur?

A 3 **B** 4 **C** 5 **D** 6

5 Which statement about a budget line in consumer behaviour theory is correct?

A It illustrates consumer preference between two goods.

B It illustrates combinations of two goods that consumers are able to purchase with a given income.

C It illustrates the least cost combination of goods that yield the same level of utility.

D It illustrates the income effect of a price change.

6 When the price of a good increases, which statement is correct according to the analysis that uses budget lines and indifference curves?

A The income and substitution effects of the price increase will work in opposite directions in the case of a Giffen good.

B The income effect of the price increase will result in reduced consumption for all goods.

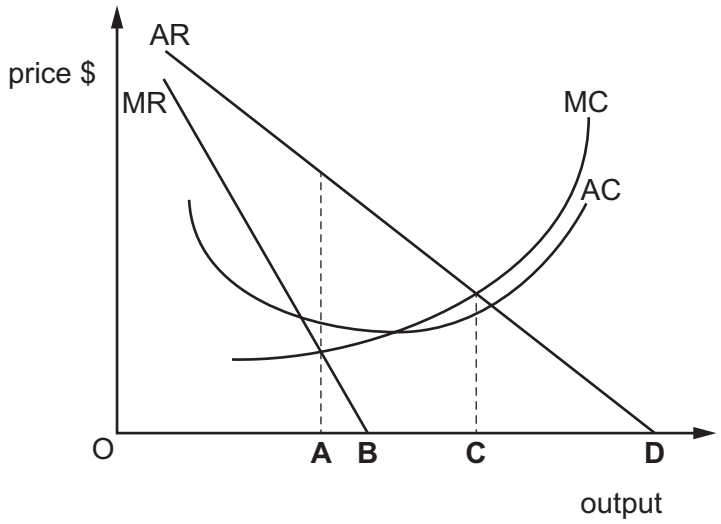
C The new equilibrium position will be where the new budget line meets the original indifference curve.

D The price rise will be represented by a parallel shift inwards of the original budget line.

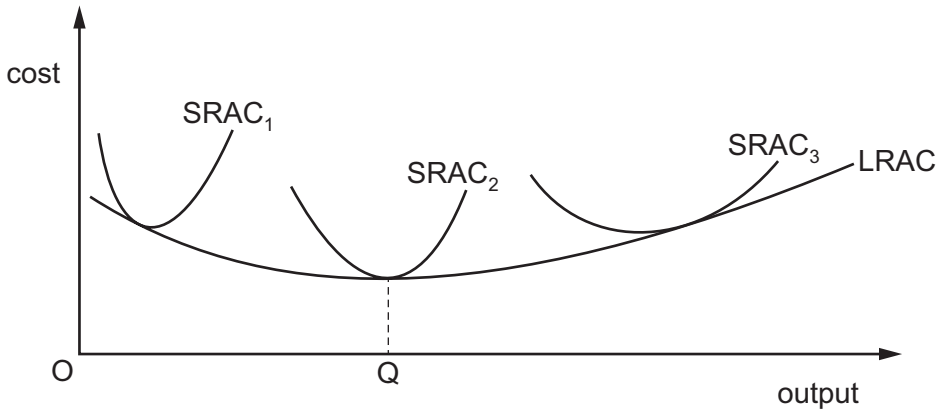
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7 The diagram shows a firm in an imperfectly competitive market.

Which level of output would maximise total revenue?



8 The diagram shows short-run average cost curves (SRAC) and the long-run average cost curve (LRAC) for a firm.



Which statement is correct?

A When each of the three SRAC curves is U-shaped it shows the existence of economies of scale.

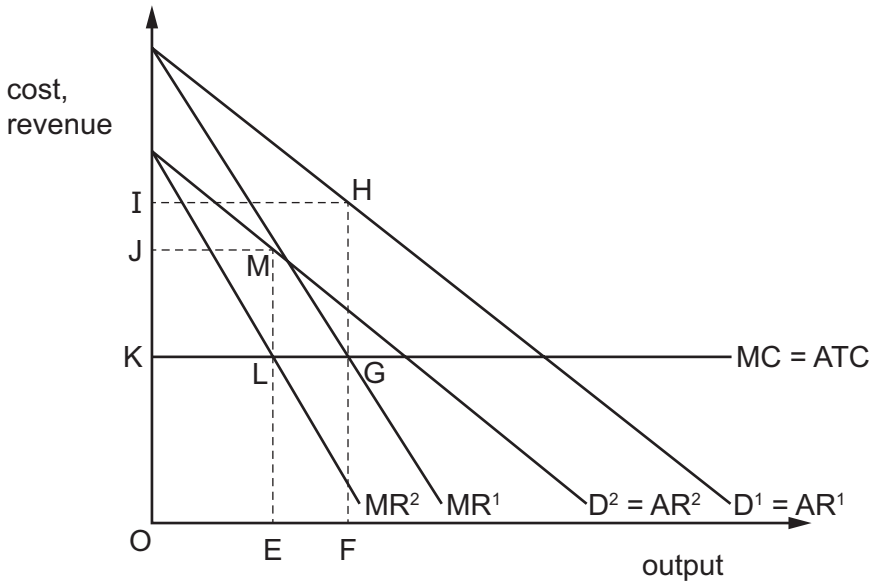
B When the LRAC curve is upward-sloping beyond output OQ it shows the existence of diseconomies of scale.

C When the minimum point of $SRAC_2$ is below that of $SRAC_1$ it shows the existence of the law of variable proportions.

D When the minimum point of $SRAC_2$ is below that of $SRAC_3$ it shows the existence of economies of scale.

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9 The diagram shows a decrease in demand for the product of a profit maximising monopolist.



Which area shows the change in the monopolist's supernormal profit as a consequence of this decrease in demand?

A IHGK **B** JMLK **C** IHGLMJ **D** IHFEMJ

10 The table shows the estimated costs for operating a new factory at the end of its first year.

costs	$m
building the factory	20
raw materials including fuel	5
machinery and delivery vehicles	4
wages for workers	1

Assuming the short run is one year, what are the total variable costs?

A $1m **B** $6m **C** $10m **D** $30m

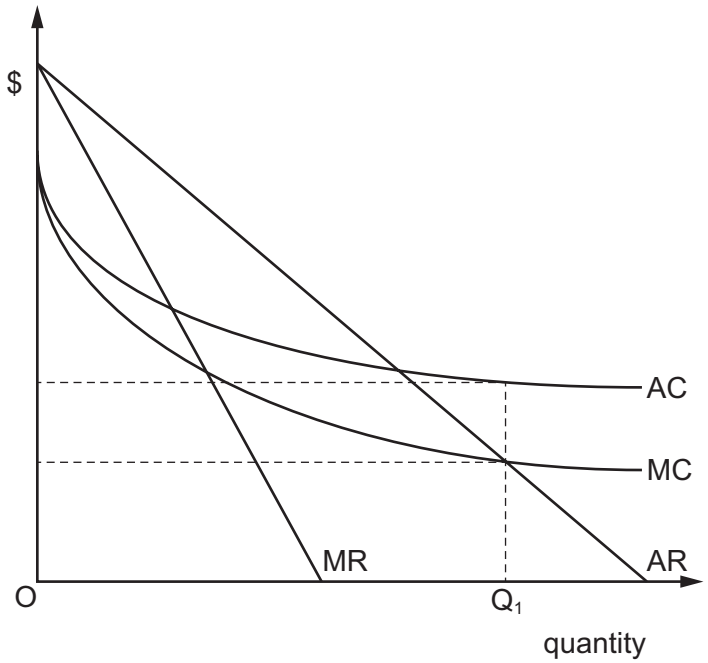
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11 A manufacturing company merged with two companies. One of these was company X that produced a substitute product. The other was company Y that supplied its raw materials.

Which combination shows the types of merger that the manufacturing company has undertaken?

	merger with company X	merger with company Y
A	horizontal	horizontal
B	horizontal	vertical
C	vertical	horizontal
D	vertical	vertical

12 Which phrase best describes the market structure illustrated by the diagram if the firm produces at output Q_1?



A a monopolistic firm in short-run equilibrium

B a monopoly making supernormal profits

C an oligopoly engaged in a price war

D a non-profit maximising state monopoly

13 The government wants to regulate the consumption of a demerit good in order to increase society's net welfare.

In which situation will society's net welfare increase?

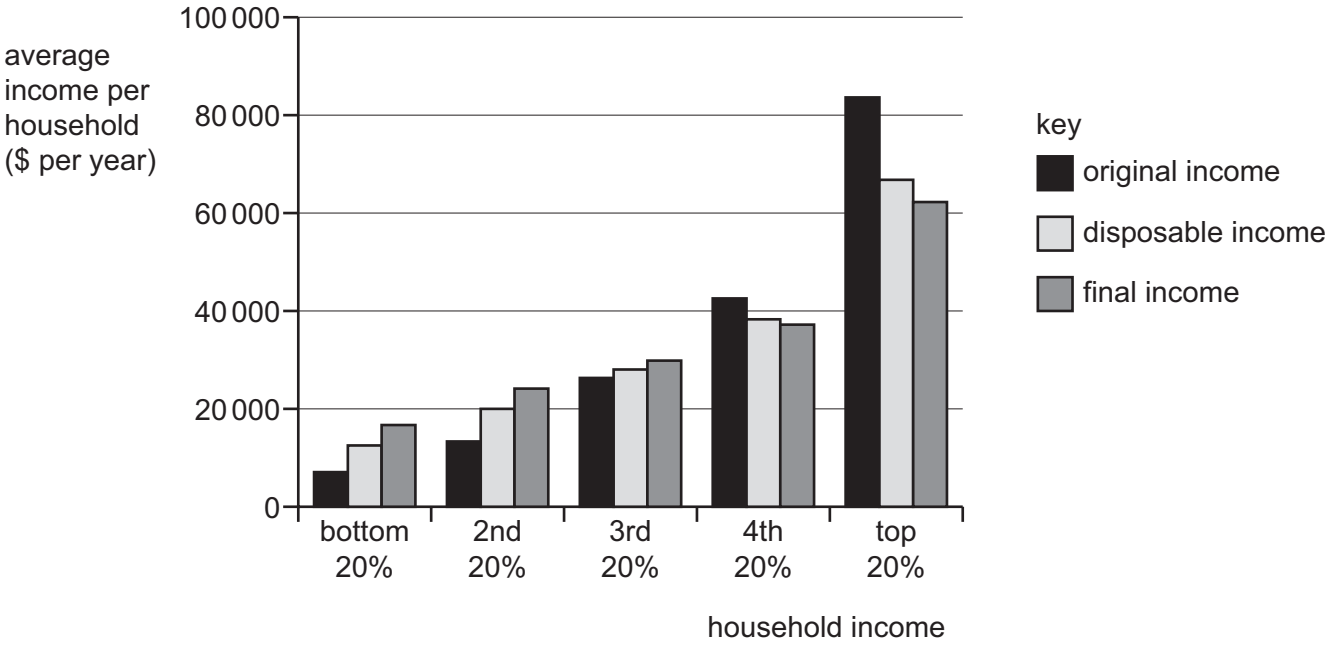
A The fall in the marginal social benefit is greater than the fall in the marginal social cost.

B The fall in the marginal external cost is greater than the fall in the marginal external benefit.

C The fall in the total social benefit is greater than the fall in the total social cost.

D The fall in the total social cost is greater than the fall in the total social benefit.

14 Governments often aim to reduce income inequalities. The diagram shows the effects of using taxation and benefits to try to achieve this aim.



What can be concluded from the diagram about the effects of taxes and benefits?

A All income groups are better off except those originally earning more than $40 000 per year.

B Benefits paid to the lower income groups are not a burden because they are not paid out of tax revenues.

C The average final income of the top 20% exceeds the combined final incomes of the other groups.

D The progressive taxation system still favours the top 20% over the bottom 20% of households.

15 Which policy is likely to be the **least** effective means of producing a more equal distribution of income amongst households?

A the imposition of minimum wage levels below the levels produced by the market

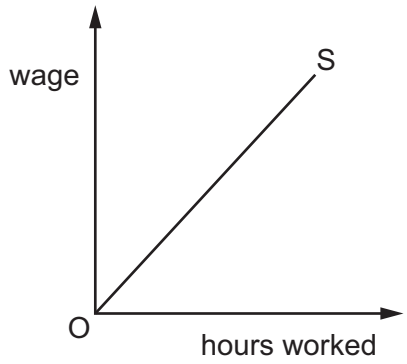
B the introduction of progressive personal income taxes

C the payment of benefits to low income households

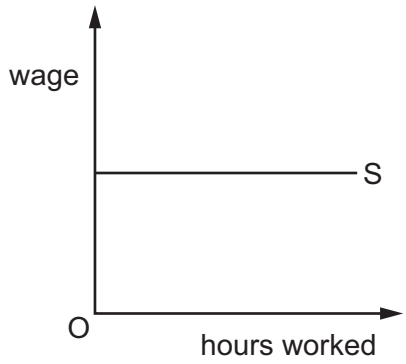
D the removal of sales taxes on food consumed by lower income households

16 Which supply curve (S) indicates that eventually an individual will choose to spend more time on leisure rather than continue working for increased wages?

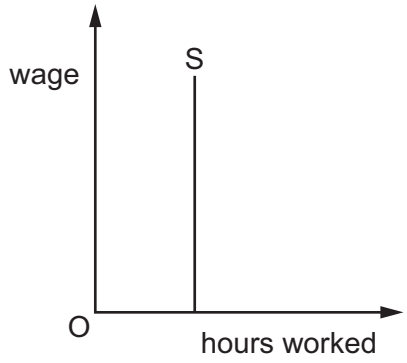
A



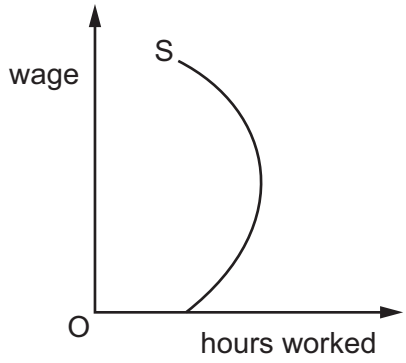
B



C



D



17 When is a trade union **less** likely to gain a large pay rise for its workers?

A It represents a large proportion of the workforce in the company.

B It represents a workforce that has an elastic demand for its labour.

C It represents a workforce that is increasing its labour productivity.

D It represents a workforce that works for a highly profitable monopoly firm.

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18 Which statement does **not** support the view that extraction of mineral resources by a foreign company will make it more difficult for a developing economy to achieve future economic growth?

A Exports of these mineral resources will result in an appreciation of the exchange rate.

B Reduced tax rates aimed at encouraging the foreign company to invest in the country will increase inflation.

C The foreign company will raise the skill levels of the local population through training schemes.

D The foreign company will send profits back to its own country.

19 Growth rates can be calculated using changes in the value of GDP from year to year.

Why is real GDP considered to be a better indicator than nominal GDP for this calculation?

A Real GDP adjusts for price changes by using a base year.

B Real GDP ignores the effects of fluctuations in exchange rates on purchasing power.

C Real GDP includes changes in the size of the population.

D Real GDP measures GDP at factor cost rather than market prices.

20 Why is disaster relief money sent by non-governmental organisations to a South American country **not** classified as official foreign aid?

A It does not finance a long-term investment programme.

B It does not incur payment of interest.

C It is not supplied by a government.

D Only countries in Asia and Africa are classified as developing.

21 What is a cause of seasonal unemployment?

A a general decrease in the demand for goods and services

B a lack of necessary skills in the workforce

C a temporary change in the pattern of consumers' expenditure

D an unwillingness of workers to move to other parts of the country where there is work

22 A firm initially employs 50 workers, each working 40 hours a week, and produces a total output of 18 000 units. It then employs an additional 10 workers, again each working 40 hours, and total output rises to 19 200 units.

Which effect does this rise in employment have on labour productivity per hour?

A decreases it by 1 unit

B decreases it by 40 units

C increases it by 120 units

D increases it by 1200 units

23 According to Keynesian theory, when will an increase in the money supply leave the level of output unchanged?

A when there is a liquidity trap

B when the money supply increase was not anticipated

C when there is a floating exchange rate

D when there is an immediate adjustment to expectations about future price levels

24 An economy is experiencing a negative output gap.

What is **most** likely to happen to the inflation rate and unemployment in this economy?

	inflation rate	unemployment
A	decreases	decreases
B	decreases	increases
C	increases	decreases
D	increases	increases

25 What do Monetarists believe?

A Economies are naturally unstable.

B Policy makers should follow set rules targeting the money supply.

C The aggregate supply curve has a slight slope.

D Wage movements are ‘sticky’ downwards.

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26 Which combination of changes over time in an economy would definitely represent increased economic growth per capita?

	average price level	total output	total population	Gini coefficient
A	falls	rises	falls	rises
B	falls	rises	no change	falls
C	rises	falls	falls	rises
D	rises	rises	rises	rises

27 Under which circumstances will the future burden of the national debt on a country increase the most?

	increase in the budget deficit	change in GDP	price of government bonds
A	+2% of GDP	+4%	decreasing
B	+2% of GDP	+4%	increasing
C	+4% of GDP	+2%	decreasing
D	+4% of GDP	+2%	increasing

28 Country X has a low rate of inflation and a stable currency and unemployed resources. It attracts $25 billion of direct foreign investment.

What is **most** likely to be a positive benefit of the inflow of this foreign direct investment for country X?

A Aggregate demand will be boosted through the investment multiplier.

B Country X will have to use its foreign reserves to eliminate any trade deficit.

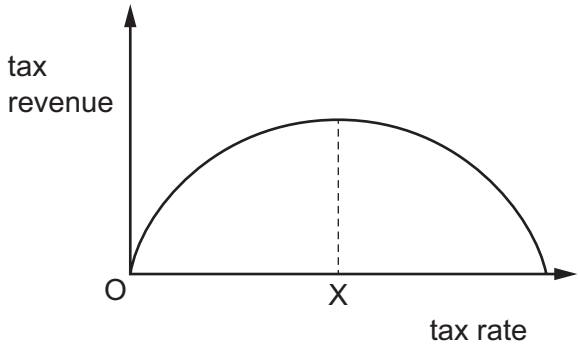
C The balance of payments will be affected with the outflow of profits to foreigners.

D The rate of inflation will increase if country X tries to increase capacity.

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29 A country with an income tax rate X decides to increase its tax rate.

The diagram shows tax revenue will fall.



Why would this happen?

A Fewer goods will be produced.

B People will work fewer hours to maintain incomes.

C Prices will rise.

D There will be an increase in tax avoidance.

30 What are the labels on the axes of a Phillips curve diagram?

	vertical axis	horizontal axis
A	inflation rate	unemployment level
B	inflation rate	unemployment rate
C	price level	unemployment level
D	price level	unemployment rate

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