Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/32**

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.

1 Which statement best defines productive efficiency?

A It is not possible to increase profits by changing the level of production.

B It is not possible to make anyone better off without others becoming worse off.

C It is not possible to produce the level of output at a lower unit cost.

D It is not possible to produce outside the production possibility curve.

2 Medical researchers indicated that drinking too many sugary drinks is bad for health.

Government intervention to impose a tax on the sale of sugary drinks might help solve which market failures?

	negative externalities of consumption	negative externalities of production	over-consumption of demerit goods
A	no	yes	yes
B	yes	yes	no
C	yes	no	yes
D	yes	no	no

3 A government uses a cost–benefit analysis approach to infrastructure projects. It is considering building a new railway to link a city centre to its airport. It estimates the following.

	$ billion
private costs	1.0
social costs	1.7
private benefits	0.5
external benefits	1.8

What should the government decide and why?

	decision	reason
A	do not proceed	total costs exceed external benefits
B	do not proceed	total costs exceed total benefits
C	proceed	private costs exceed private benefits
D	proceed	social benefits exceed social costs

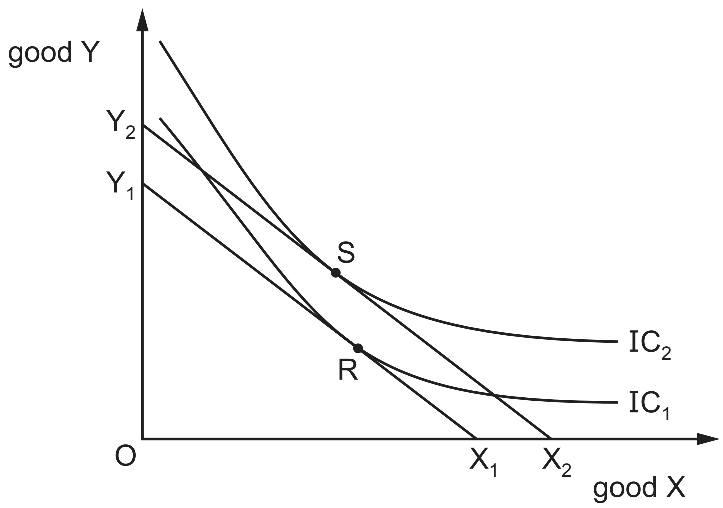
4 A consumer currently consumes 10 units of good X and 10 units of good Y at point Z on an indifference curve.

The consumer's marginal utilities from consuming both good X and good Y are positive.

Which combination of good X and good Y could be on the same indifference curve as point Z?

	units of good X	units of good Y
A	9	11
B	10	11
C	11	10
D	12	12

5 The diagram shows two indifference curves and two budget lines for goods X and Y. The consumer's initial equilibrium is point R.



There is a shift in the budget line from Y_1X_1 to Y_2X_2 and the new equilibrium for the consumer is point S.

What can definitely be concluded about good X?

A It is a Giffen good.

B It is an inferior good.

C It is a normal good.

D It is a public good.

6 What are the correct formulae for calculating average cost (AC) and average revenue (AR)?

	AC	AR
A	$\frac{TC}{MC}$	$\frac{TR}{MR}$
B	$\frac{TC}{P}$	$P \times Q$
C	$\frac{TC}{Q}$	$\frac{TR}{Q}$
D	$\frac{TC}{Q}$	$\frac{TR}{P}$

key
MC = marginal cost
MR = marginal revenue
P = price
Q = quantity
TC = total cost
TR = total revenue

7 What is **always** present in monopolistic competition and perfect competition in the long run?

A average revenue = average costs

B average revenue = marginal revenue

C average costs = marginal costs

D average costs = marginal revenue

8 A firm maximises its profits by maximising its total revenue.

What does this imply?

A Average fixed cost is zero.

B Average revenue is equal to average cost.

C Marginal cost is zero.

D Marginal revenue is greater than marginal cost.

9 What will happen to an industry's supply curve if firms leave the industry?

A It will shift to the left at any given price.

B It will shift to the right at any given price.

C There will be a downward movement along the supply curve.

D There will be an upward movement along the supply curve.

10 Which characteristic of a market is a reason for a firm to remain small?

A The minimum efficient scale is high.

B The potential for x-inefficiency is high.

C There are significant economies of scale.

D There is limited access to financial capital.

11 What is an example of the principal–agent problem?

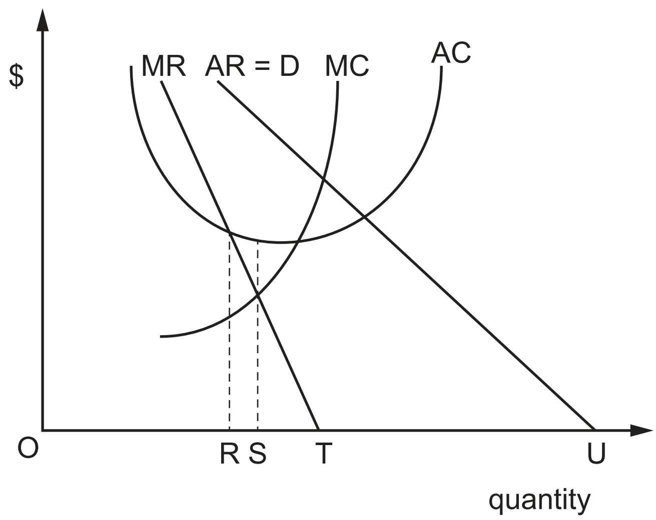
A the disincentive effect for entrepreneurs of high government tax rates

B the existence of a trade union to put forward workers' views to managers

C the lack of consumer knowledge of the quality of firms' products

D the separation of the owners of a firm from the firm's managers

12 The diagram shows a firm in imperfect competition.



It changes its objective from profit maximisation to revenue maximisation.

What effect will this have on the firm's output?

A decreases from T to R

B decreases from U to T

C increases from S to T

D increases from S to U

13 Which statement explains why a government decides to increase the highest rates of tax on personal income?

A It expects total tax revenue to be unaffected by the policy change.

B It is concerned about the possibility of emigration by some high earning individuals.

C It regards equity considerations as being more important than efficiency ones.

D It wishes to switch the emphasis of its tax system from direct to indirect taxation.

14 In certain countries benefits are provided to individuals on low income. As their income rises the benefits are reduced and income tax has to be paid.

What can result from this?

A price stabilisation

B poverty trap

C replacement ratio

D unemployment trap

15 An economy requires large inputs of steel for its building programmes. After political pressure, the government imposes a minimum price on imported foreign steel.

When would this intervention lead to economic inefficiency?

A when it encourages domestic steel producers to achieve economies of scale

B when it prevents dumping of low-grade steel

C when it protects jobs of highly productive steel workers

D when it reduces competition for steel workers

16 What happens to economic rent and transfer earnings if the supply of labour becomes perfectly inelastic?

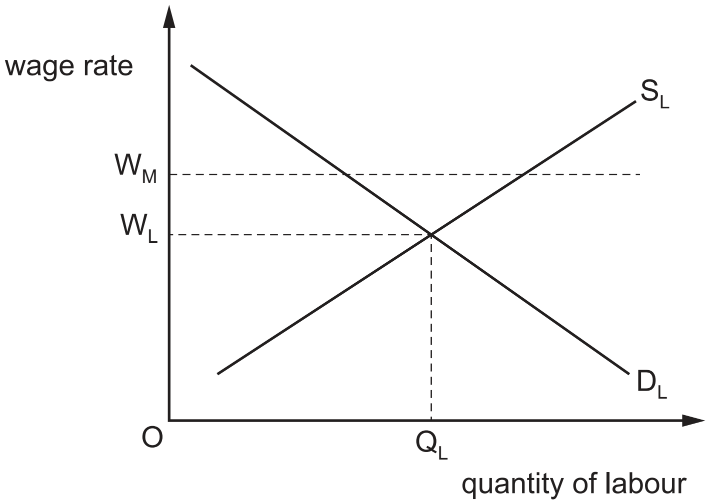
A economic rent decreases; transfer earnings increase

B economic rent decreases; transfer earnings stay the same

C economic rent increases; transfer earnings decrease

D economic rent stays the same; transfer earnings decrease

17 The diagram shows the effect of the introduction of a minimum wage (W_M) in the labour market.



When would such a minimum wage be **least** beneficial to workers who are currently employed?

A if demand for the product increases

B if the elasticity of demand for the workers were high

C if the elasticity of supply for the workers were high

D if the productivity of the workers were to increase

18 Which statement about economic growth is **not** correct?

A Economic growth creates costs as well as benefits.

B Long-term economic growth is measured by calculating the percentage increase in GDP for one year.

C Short-term economic growth can be represented by a shift from a point within a production possibility curve to a point on the curve.

D Sustainable economic growth is growth that does not reduce the resources available to future generations.

19 Why is real GDP per head thought to be an imperfect measure of welfare in developed economies?

A frequent government manipulation and misuse of data

B no account is taken of inflation

C the restricted scope of the data's content and coverage

D the shadow economy is greater than the official economy

20 What changes are most likely to reduce the level of income inequality in an economy?

A additional government regulation of product and factor markets

B increased progressive direct taxation and decreased indirect taxation

C increased trade union power and reduced labour market flexibility

D reduced welfare benefits and increased rate of interest

21 The table gives labour market statistics for Malaysia for January to March 2019.

	number of people
employed	15m
unemployed	0.5m
not available for work	7m
population of working age	23m

What is the size of Malaysia's labour force?

A 15m **B** 15.5m **C** 22m **D** 22.5m

22 What would encourage industrial expansion in a region of high unemployment?

A a rationing system for building development in that region

B an increase in taxes on investment

C a requirement that only local labour may be employed

D an end to nationally negotiated wage rates

23 An island economy has a small manufacturing base, limited mineral resources and limited agricultural land.

Which development is **most** likely to lead to sustainable growth?

A building larger fishing boats to allow fishermen to enjoy economies of scale

B clearing rainforest to create agricultural land for the production of much needed foodstuffs

C training farmers and agricultural workers in new production methods to increase crop yields

D using its domestic mineral resources to give a rapid increase to manufacturing output

24 The information in the table is taken from a country's national income accounts.

income	$ (millions)
wages	8000
salaries	7000
unemployment benefit	1000
government pensions	1000
rent	3000
interest	2000

What is the value of national income in millions of dollars?

A 17 000 **B** 19 000 **C** 20 000 **D** 21 000

25 In a closed economy with no government sector the marginal propensity to consume is 0.6 at all levels of income. There is an increase in private sector investment of $100 million.

What will be the increase in national income?

A $60 million **B** $100 million **C** $166 million **D** $250 million

26 According to liquidity preference theory, which money balances are responsive to a change in the interest rate?

	active balances	idle balances
A	no	yes
B	no	no
C	yes	yes
D	yes	no

27 The bank cash deposit ratio changed from 5% to 10%.

What will be the result?

A Bank deposits will fall by 10%.

B Banks deposits will rise by 5%.

C The credit multiplier will fall by 50%.

D The credit multiplier will increase by 5%.

28 In a developing economy, which policy is most likely to increase the rate of economic growth but restrict economic development?

A an increase in the provision of healthcare facilities

B an increase in the school leaving age

C a removal of health and safety regulations

D the promotion of export-led growth

29 Which policy is most likely to conflict with a government's aim of price stability in the short run?

A increasing spending on education and health

B increasing the basic rate of income tax

C limiting wage increases in the public sector

D preventing mergers of large companies

30 What is most likely to be an appropriate government action to reduce both a balance of payments current account surplus and the rate of inflation?

A decrease the rate of interest

B devalue the currency

C increase direct taxes

D remove tariffs on imports

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