Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/32**

Paper 3 Multiple Choice **October/November 2020**

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. A mark will not be deducted for a wrong answer.
- Any rough working should be done on this question paper.

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1 What is necessary to achieve Pareto efficiency?

A Both consumers and producers must be made better off.

B Everybody must be made equally better off.

C One person must benefit without anyone else being worse off.

D The welfare gains must exceed the welfare losses.

2 A local council is considering building a passenger terminal at a port so that it can benefit the large cruise ships that dock there. It undertakes a cost–benefit analysis.

What would be included as an external cost in the local council's cost–benefit analysis?

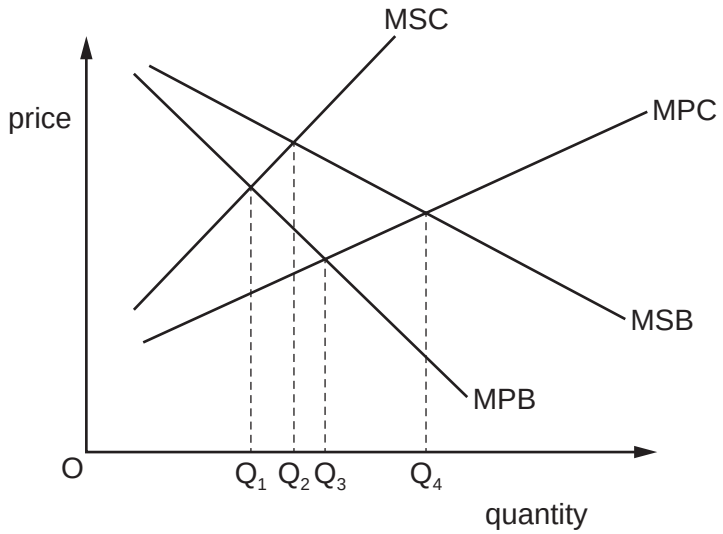
A the cost of a ticket for a passenger to travel on a cruise ship

B the cost of fuel to operate the cruise ships

C the costs paid by cruise ships when they dock at the port

D the cost to a fishing fleet of relocating to another port

3 The expected marginal private benefits (MPB), marginal social benefits (MSB), marginal private costs (MPC) and marginal social costs (MSC) for the building of a new road are shown in the diagram. The government intervenes so that the socially desirable output is achieved.



Which combination shows the equilibrium output without government intervention and with government intervention?

	without government intervention	with government intervention
A	Q_4	Q_1
B	Q_3	Q_2
C	Q_3	Q_4
D	Q_4	Q_1

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4 A rational consumer chooses what quantities of two products Y and Z to purchase with a given income.

MU_Y and MU_Z are the additions to total utility that would result if the consumer were to purchase an additional unit of each product.

P_Y and P_Z are the current prices of the two products.

Which outcome would represent consumer equilibrium?

A when $MU_Y = MU_Z$

B when $MU_Y \times P_Y = MU_Z \times P_Z$

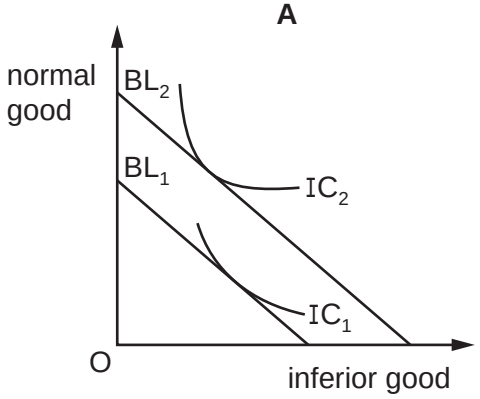
C when $MU_Y \times P_Z = MU_Z \times P_Y$

D it is not possible to tell from the information available

5 The diagrams show a consumer's indifference curves (IC) and budget lines (BL) for an inferior good and a normal good.

Which diagram shows the effect of a cut in income tax on the consumer's choice?

A



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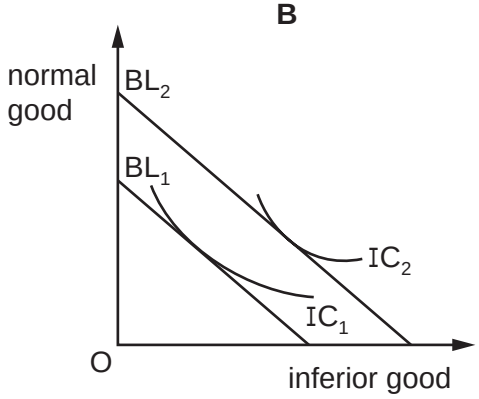

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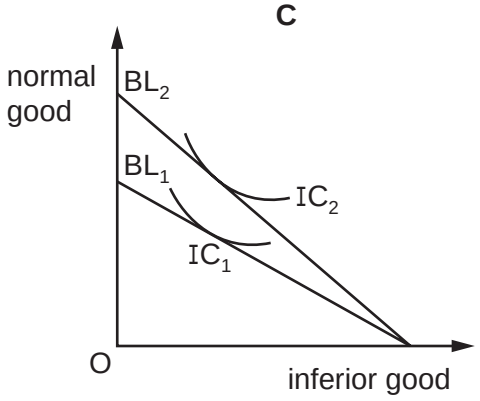

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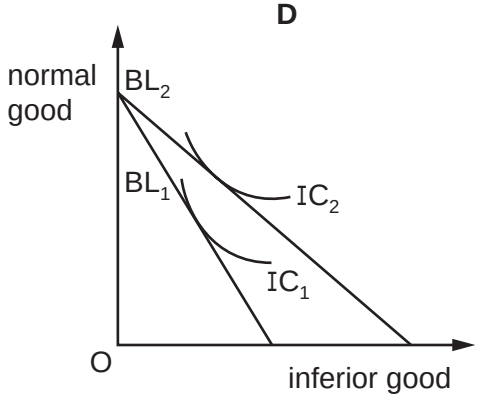


6 What is marginal cost?

A the difference between the total cost of producing *n* units and *n* – 1 units of output

B the difference between the average variable cost of producing *n* units and *n* – 1 units of output

C the difference between the average total cost of producing *n* units and *n* – 1 units of output

D the average fixed cost of producing one more unit of output

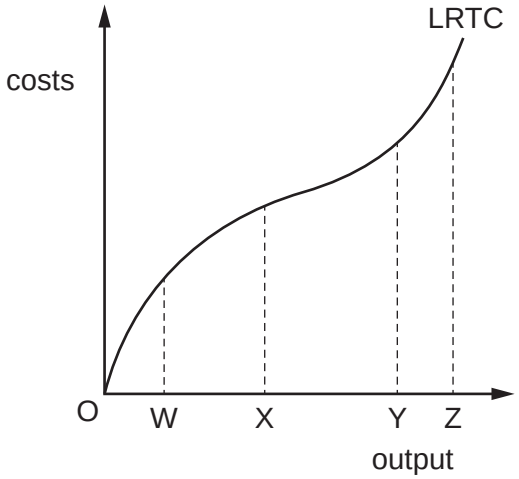
7 The table shows the production and total cost of a firm.

production (tonnes)	total cost ($)
0	20
1	30
2	35
3	40
4	45
5	50

What is the average variable cost of producing 5 tonnes of output?

A $4 **B** $5 **C** $6 **D** $10

8 The diagram shows the long-run total cost (LRTC) curve of a firm.



At which output is the long-run average total cost at its minimum?

A OW **B** OX **C** OY **D** OZ

9 Which combination of statements about small firms and large firms is correct?

	small firms	large firms
A	are more common in manufacturing than in services	face high barriers to exit
B	are more numerous than large ones	do not experience diseconomies of scale
C	can do well when each item produced must be different	may arise from internal growth or mergers
D	cannot have any monopoly power	cannot earn supernormal profits

10 Why might the long-run equilibrium of a profit-maximising firm in a monopolistically competitive market differ from its short-run equilibrium?

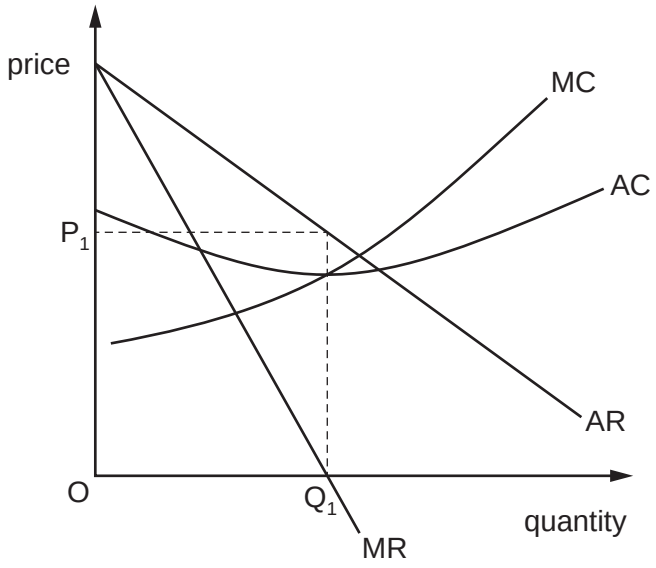
A Advertising expenditure is possible.

B There are low barriers to entry.

C Firms experience diminishing returns.

D Innovation reduces the monopoly power of firms.

11 The diagram shows the cost and revenue curves of a monopolist.



What would be the aim of the firm if it chose to produce at Q_1P_1?

A revenue maximisation

B profit maximisation

C sales maximisation

D growth maximisation

12 What does the 'kinked demand curve' model suggest about the equilibrium price in an oligopoly market?

A It will be stable because there is little incentive for firms to change prices.

B It will be stable because there is a lot of competition.

C It will change frequently because there is a lot of competition.

D It will change frequently because price is determined by demand and supply.

13 What is the essential feature of nudge theory?

A the aim of satisficing

B the establishing of a legal requirement

C the existence of a contestable market

D the idea of persuasion

14 What indicates that a more equal distribution of income has been achieved?

A a faster rate of economic growth

B a higher Human Development Index

C a lower Gini coefficient

D a lower tax / GDP ratio

15 Which combination of policies is most likely to reduce the number of low-paid workers caught in the poverty trap?

	individual's tax-free allowance for income tax	national minimum wage in real terms
A	decrease	increase
B	decrease	unchanged
C	increase	increase
D	increase	unchanged

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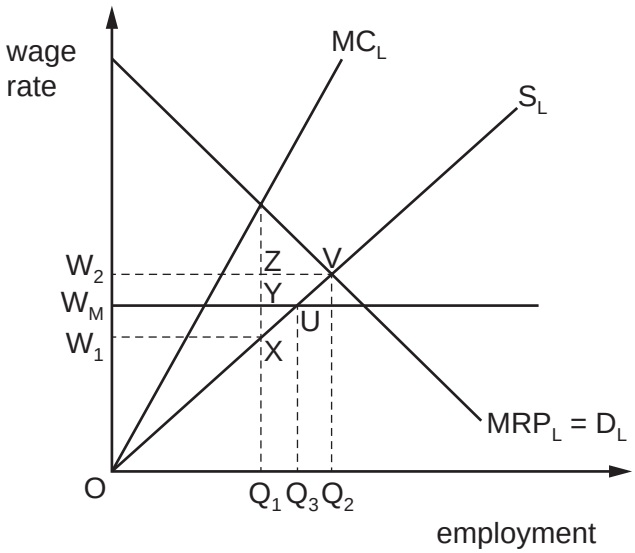
16 The diagram shows the effect of the introduction of a national minimum wage, W_M, in an occupation where workers are employed by a profit-maximising monopsonist.



What happened to total wages received by the workers in the occupation?

A They decreased from OW_2VQ_2 to OW_MUQ_3.

B They decreased from OW_2ZQ_1 to OW_MUQ_3.

C They increased from OW_1XQ_1 to OW_MYQ_1.

D They increased from OW_1XQ_1 to OW_MUQ_3.

17 A backward-sloping supply curve of labour is one where, beyond a certain point, the supply of labour

A decreases as the demand for labour rises.

B increases as the demand for labour rises.

C decreases as wages rise.

D increases as wages rise.

18 The table shows factors that influence living standards.

Which country would be most likely to have the **lowest** Human Development Index (HDI)?

	mean years of schooling	homicide (murder) rate (per 100 000 people)	life expectancy at birth (years)	infant mortality rate (per 100 000 live births)	GNI per capita (PPP$)
A	13	1	80	4	42 500
B	8	25	75	15	14 500
C	8	3	68	12	18 000
D	7	5	58	41	8 400

19 The table provides data on the Gross National Income (GNI) and the foreign aid expenditure of selected countries in 2016.

country	GNI (US$ billion)	foreign aid expenditure (US$ billion)
Belgium	468.9	2.10
Germany	3612.1	23.84
Sweden	532.7	5.38
South Korea	1403.6	2.10

What can be concluded from the table?

A Countries with a higher GNI always spend more on foreign aid.

B Germany has the world's highest expenditure on foreign aid.

C South Korea and Belgium spent an equal proportion of GNI on foreign aid.

D Sweden spent the highest proportion of GNI on foreign aid.

20 What would **not** be classified as structural unemployment?

A a car worker who is replaced by a robot on the production line

B a coal miner whose mine closes because of increased use of solar power

C a fruit picker who cannot find work in the winter months

D a textile worker whose factory closes as production moves abroad

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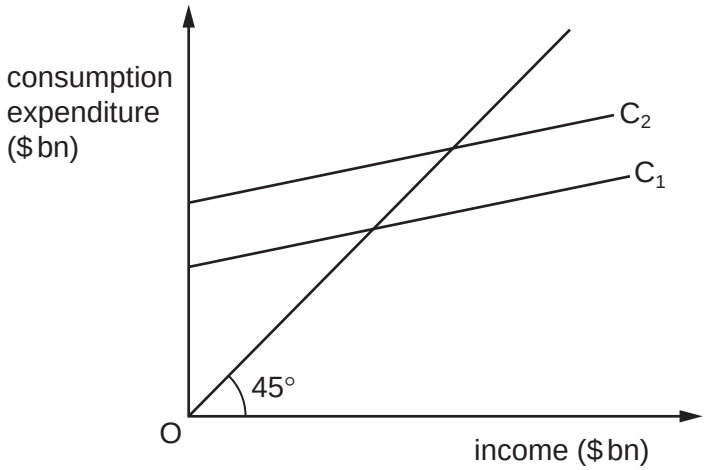
21 The diagram shows the consumption function of a country.



What could cause the consumption function to shift upwards from C_1 to C_2?

A an increase in interest rates

B an increase in direct taxation

C an increase in the proportion of income saved by households

D the expectation of an increase in the rate of sales taxes

22 The accelerator principle refers to a relationship between investment and

A the level of GDP.

B changes in GDP.

C the level of interest rates.

D changes in interest rates.

23 What is included in 'narrow money'?

	notes and coins in circulation	current (checking) account deposits	banks' liquid assets at the central bank	treasury bills
A	✓	✓	✓	✗
B	✓	✓	✗	✗
C	✓	✗	✗	✗
D	✗	✗	✓	✓

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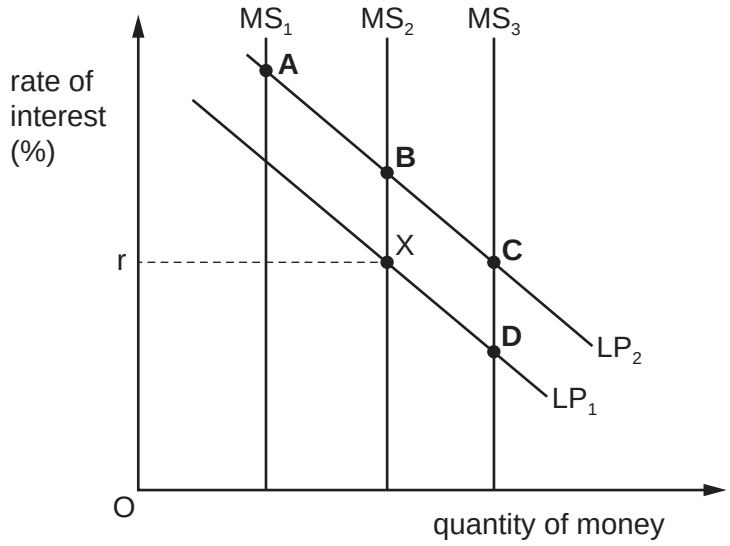
24 The diagram shows three levels of the money supply (MS) and three liquidity preference schedules. The initial money market equilibrium is X. The central bank purchases more government securities.

Which equilibrium shows the initial impact of this purchase?



25 What is an important assumption of Monetarism?

A Fiscal policy is more effective than monetary policy in reducing inflation.

B Long-term unemployment results from deficient demand.

C The interest elasticity of investment spending is low.

D The velocity of circulation is stable.

26 According to Keynesian theory, how will an increase in autonomous spending affect the value of equilibrium income?

A Income will increase by an amount equal to the value of autonomous spending.

B Income will increase by an amount greater than the value of autonomous spending.

C Income will increase by an amount smaller than the value of autonomous spending.

D Income will not increase as a result of autonomous spending.

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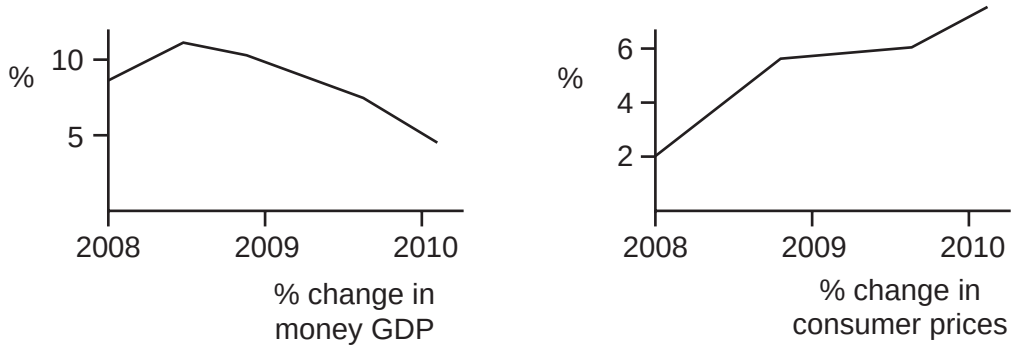
27 Statement 1: A market economy is inherently unstable and the government must play a stabilising role through monetary policy and fiscal policy.

Statement 2: The economy will always return to its equilibrium rate of output and unemployment and as a result long-run aggregate supply is vertical.

Which row correctly attributes these statements to Keynesian and Monetarist theories?

	statement 1	statement 2
A	Keynesian	Keynesian
B	Keynesian	Monetarist
C	Monetarist	Keynesian
D	Monetarist	Monetarist

28 The graphs below show percentage changes in money GDP and consumer prices in a country between 2008 and 2010.



Which conclusion may be drawn from the graphs?

A Between 2009 and 2010 money GDP fell but consumer prices continued to rise.

B Money GDP and consumer prices both continued to rise throughout the period.

C In real terms GDP grew throughout the period.

D When money GDP fell, consumer prices rose.

29 In an economy, the elasticity of demand for imported raw materials is 0.3 and the elasticity of demand for exports is also 0.3.

Following a depreciation of the economy's currency, what will be the impact on inflation?

	change in cost push factors will cause inflation to	change in demand pull factors will cause inflation to
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

30 Which combination of macroeconomic policies will most likely be successful if the aim were to reduce unemployment and reduce inflation?

A contractionary supply-side policies and higher interest rates

B expansionary supply-side policies and reduced indirect taxes

C increased direct taxes and reduced indirect taxes

D reduced rates of interest and depreciation of exchange rate

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