



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 |

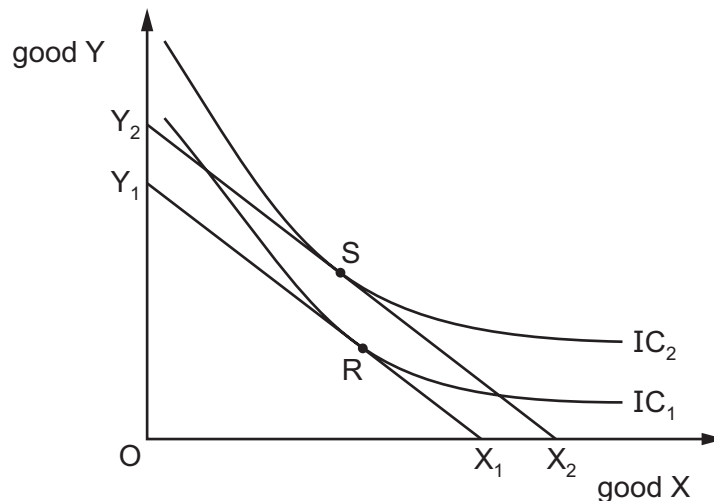
- 4 A consumer currently consumes 10 units of good X and 10 units of good Y at point Z on an indifference curve.

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.

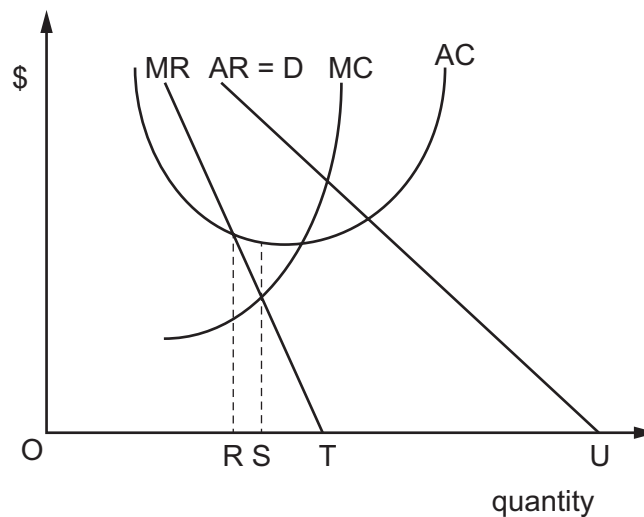
What does this imply?

- 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.

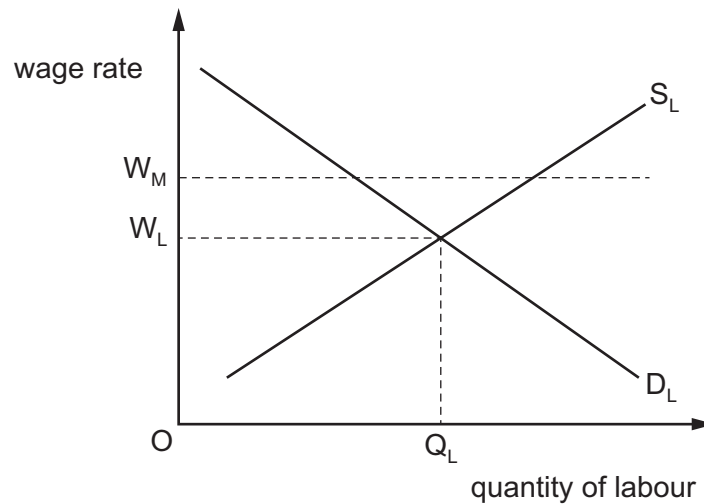
What can result from this?

- 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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