Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/31**

Paper 3 A Level Multiple Choice **October/November 2023**

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.

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1 Economists normally assume that the marginal utility from consuming additional goods is positive and diminishing.

What is the effect on total satisfaction of consuming extra units of the good?

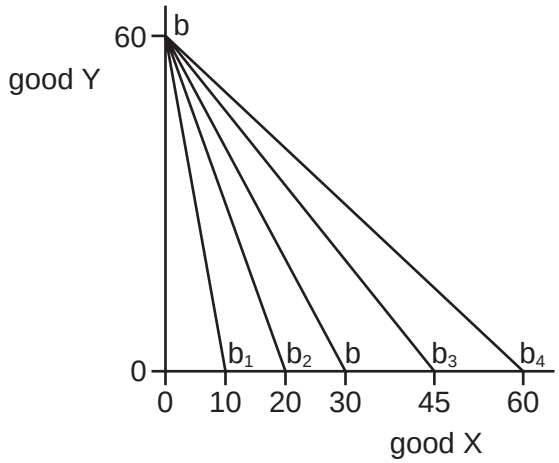
A Total satisfaction falls at a decreasing rate.

B Total satisfaction falls at an increasing rate.

C Total satisfaction rises at a decreasing rate.

D Total satisfaction rises at an increasing rate.

2 A budget line (b–b) shows the combinations of two goods, X and Y, that a consumer can obtain within a fixed income of \$60 per week, when the price of Y = \$1 and X = \$2.



If the price of X rises to \$3, what will be the new budget line?

A $b–b_1$ **B** $b–b_2$ **C** $b–b_3$ **D** $b–b_4$

3 Which market structures are contestable?

	perfect competition	monopolistic competition	pure monopoly
A	no	no	yes
B	no	yes	yes
C	yes	no	no
D	yes	yes	no

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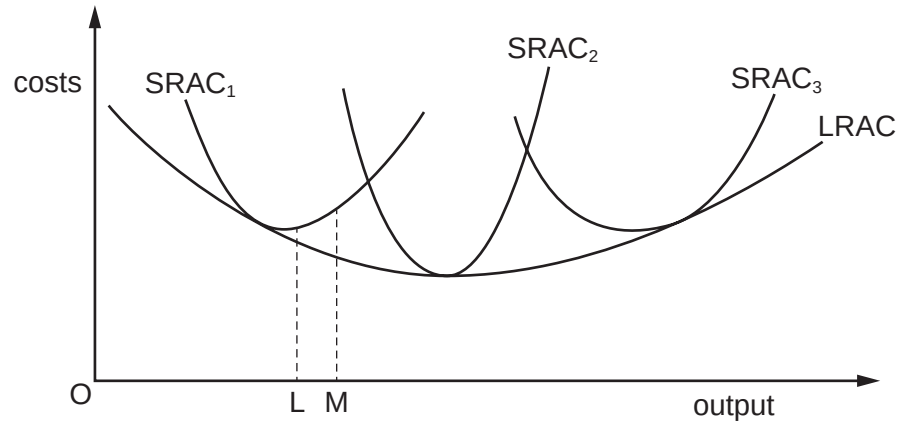
4 The diagram shows a long-run average cost curve (LRAC), and three short-run average cost curves ($SRAC_1$, $SRAC_2$ and $SRAC_3$) for an individual firm. Each short-run average cost curve represents a fixed factor of production.



Between levels of output OL and OM, which statement is **not** correct?

A Average fixed costs are falling.

B Economies of scale are being experienced.

C The law of diminishing returns is operative.

D There are decreasing returns to scale.

5 Which combination of reactions by rivals results in a kinked demand curve for an oligopolist when a price is changed?

A copying both a price rise and a price fall

B copying a price rise and ignoring a price fall

C ignoring a price rise and copying a price fall

D ignoring both a price rise and a price fall

6 What is a key condition for effective price discrimination?

A The product cannot be resold to another consumer.

B The product must be price inelastic.

C The profits from one market can be used to subsidise another market.

D There are low barriers to entry into the market.

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7 Which combination of cost conditions is most likely to act as a barrier to entry to a new firm wanting to join an industry?

	fixed costs as a proportion of total costs	minimum efficient scale of firms in the industry	level of sunk costs
A	high	high output	high
B	high	low output	high
C	low	high output	low
D	low	low output	low

8 How is dynamic efficiency represented on a diagram?

A a downward move to the minimum point of a long-run average cost curve

B a downward shift in the long-run average cost curve

C a move from a point inside a production possibility curve to a point on it

D a reduction in marginal revenue so that it equals long-run marginal cost

9 A city council is considering building a passenger terminal at its port so that the city can benefit from large cruise ships that could then dock there. It undertakes a cost–benefit analysis.

What would be included as an external cost in the city 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

10 Some multinational oil companies extracting oil in developing countries are now required to repair the damage they do to the environment.

What best describes the total costs incurred by the oil companies in such circumstances?

A external costs

B private costs plus external costs

C social costs plus external costs

D social costs plus private costs

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11 Which statement is **not** an example of government failure?

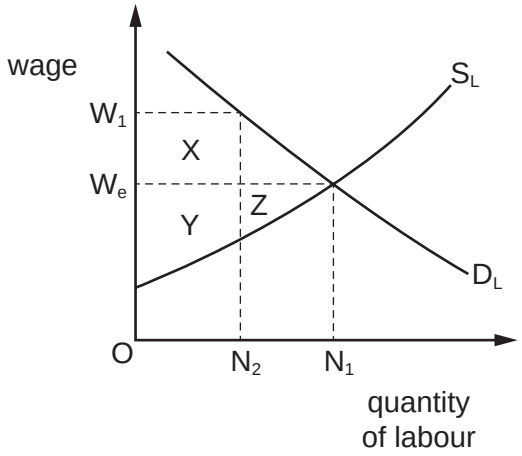
A government intervention leading to a less efficient allocation of resources

B government intervention leading to a net loss of economic welfare

C government intervention leading to an increase in consumer surplus

D government intervention leading to social costs exceeding social benefits

12 The diagram shows the demand for and supply of labour.



The government announces a minimum wage of W_1.

Which area represents the increase in the economic rent of workers who will continue to be employed at the minimum wage?

A X **B** Y **C** X + Y **D** X + Y + Z

13 A firm is faced with a shortage of labour. It decides to introduce its own training scheme for school leavers.

Which effect is this most likely to have on the firm?

A a decrease in the number of workers it employs

B a decrease in the productivity of its workforce

C an increase in the geographical mobility of its labour

D a shift of the supply curve for its labour to the right

14 What is likely to result if a government introduces a new regressive tax?

A Aggregate demand will increase.

B Employment opportunities will increase.

C Income equality will improve.

D Tax revenues will increase.

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15 Which government policy to counter the effects of income inequality is correctly matched with one of its advantages and one of its disadvantages?

	policy	advantage of policy	disadvantage of policy
A	food subsidies for the poor	targets those in need	high administrative costs
B	higher national minimum wage	encourages skill training	higher budget deficit
C	provision of free child care	increases employability	disincentive to work
D	universal monetary benefits	saves on bureaucracy	reduced labour mobility

16 Under which circumstances will a subsidy from the government be most beneficial if there are externalities from producing good X?

	externality caused by good X	price elasticity of demand of good X
A	negative	<1
B	negative	>1
C	positive	<1
D	positive	>1

17 What might **decrease** if a closed economy with a government sector decides to allow international trade?

A components of aggregate expenditure

B number of injections into the circular flow of income

C number of leakages from the circular flow of income

D value of the economy's multiplier

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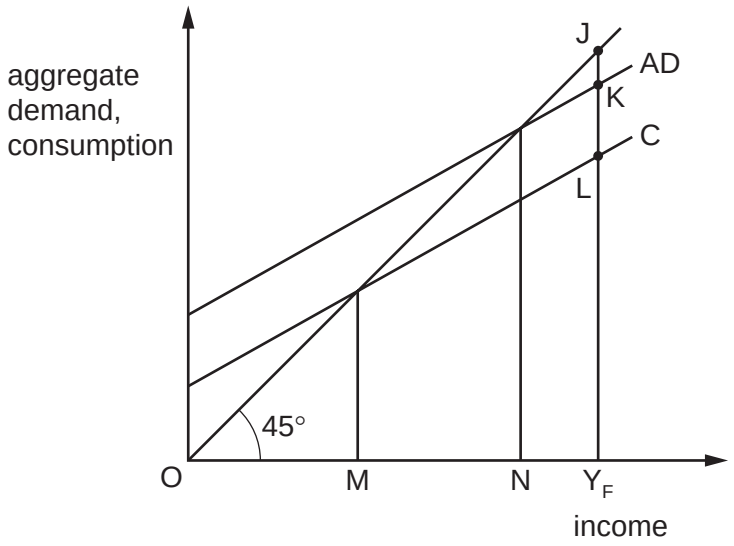
18 The diagram shows a closed economy in which the full employment level of income is Y_F.



Which distance measures the deflationary gap?

A JK **B** JL **C** NY_F **D** MY_F

19 Which policy to counter climate change is considered to be regulatory rather than market based?

A the introduction of carbon taxes on pollution

B the operation of tradable pollution permits

C the provision of government subsidies

D the setting of industrial emission standards

20 Which cause of economic growth is most likely to ensure that the growth is sustainable?

A deregulation of industrial production that uses mineral resources and fossil fuel

B increased government spending on environmental education, financed through taxes on harmful goods

C increased trade barriers on imports to protect domestic jobs and incomes

D reduced planning regulations to encourage construction in areas of natural beauty

21 In all major towns in a country, a government adopts a policy of opening centres where job vacancies are advertised.

Which type of unemployment is the government aiming to reduce with this policy?

A cyclical

B frictional

C regional

D seasonal

22 What is the basic assumption underlying the accelerator theory?

A Investment depends on the level of business confidence.

B Investment depends on the level of savings.

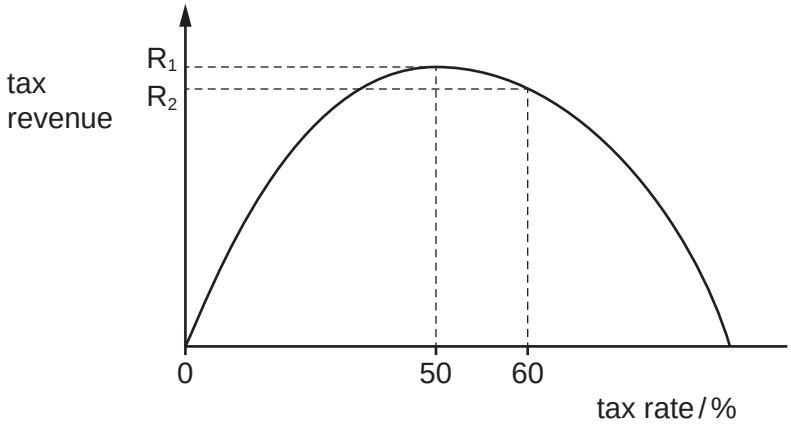
C Investment depends on the rate of change in national income.

D Investment depends on the rate of change of interest rates.

23 What shows the correct outcome for the policy option?

	policy option	outcome
A	depreciation of the exchange rate	encourages more exports, which also means greater employment
B	higher interest rates	attracts hot money inflows, and is an incentive for more consumer spending
C	decreased government spending	more workers will be employed, and more imports will be bought
D	reduction in income taxes	increases consumer spending, with increased demand for exports

24 The Laffer curve shows expected tax revenues at different tax rates.



An increase in the tax rate above 50% is expected to decrease tax revenue.

What is the reason for this?

A decreased incentive for emigration

B decreased incentive for tax evasion

C increased incentive for people to work

D increased incentive for people to work fewer hours

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25 A government wishes to improve the income distribution between the richest and poorest in society. It introduces means tested benefits for workers on low incomes. To pay for this, income tax rates for the highest paid will increase.

What is the most significant strength and weakness of this policy approach?

	strength	weakness
A	benefits are only given to those in need	poor non-workers will be no better off
B	intergenerational equity is improved	tax avoidance is more likely
C	workers will be encouraged to work more hours	taxation has become more regressive
D	the policy approach will be efficient to operate	wealth distribution will be affected more than income distribution

26 The table shows data on the unemployment and inflation rates for four countries in 2010 and 2014.

country	unemployment rate (% of workforce)		inflation rate (% per annum)	
	2010	2014	2010	2014
Australia	5.2	6.1	2.7	1.6
Canada	8.0	6.9	2.2	1.9
Japan	5.1	3.6	–0.3	2.5
United States	9.6	6.2	1.7	0.6

Which countries had a typical Phillips curve?

A Australia and Japan

B Australia only

C Japan only

D Canada and the United States

27 Which adjustment is made to gross domestic product (GDP) to calculate a measure of economic welfare (MEW)?

	environmental costs and benefits	the value of leisure activity	the value of unpaid work
A	no	no	yes
B	yes	no	no
C	yes	yes	no
D	yes	yes	yes

28 Purchasing power parity (PPP) allows a comparison of the purchasing power in two countries.

What is a definition of PPP?

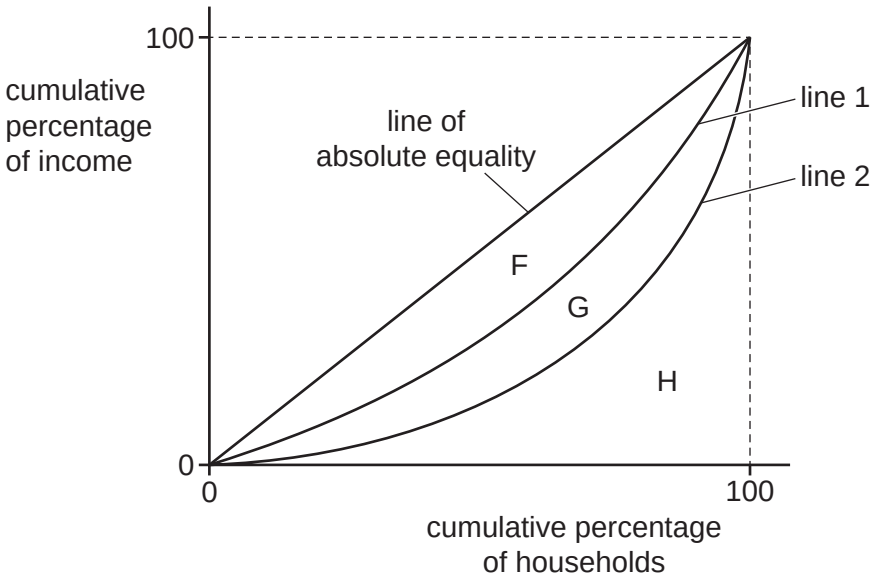
A the amount of the domestic currency needed to purchase a unit of foreign currency

B the quantity of a currency required to purchase the same basket of goods in both countries

C the quantity of goods and services that can be purchased by a person on an average income

D the value of expenditure by households on goods and services in a country

29 A Lorenz curve measures the income distribution in a country. The further the Lorenz curve is from the line of absolute equality, the greater the level of inequality.



What is the value of the Gini coefficient when the Lorenz curve is at line 2?

A $\frac{F+G}{H}$ **B** $\frac{F+G}{F+G+H}$ **C** $\frac{G}{G+H}$ **D** $\frac{H}{F+G+H}$

30 The turning point on the Kuznets curve for income inequality has been estimated to be in the region of US$10 500.

For a country that has a GDP per capita of $8000, what is most likely?

A A reduction in GDP per capita will have no effect on income inequality.

B A reduction in GDP per capita will increase income inequality.

C An increase in GDP per capita will have no effect on income inequality.

D An increase in GDP per capita will increase income inequality.

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