



Cambridge International AS & A Level

ECONOMICS

9708/03

Paper 3 A Level Multiple Choice

For examination from 2023

SPECIMEN PAPER

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.

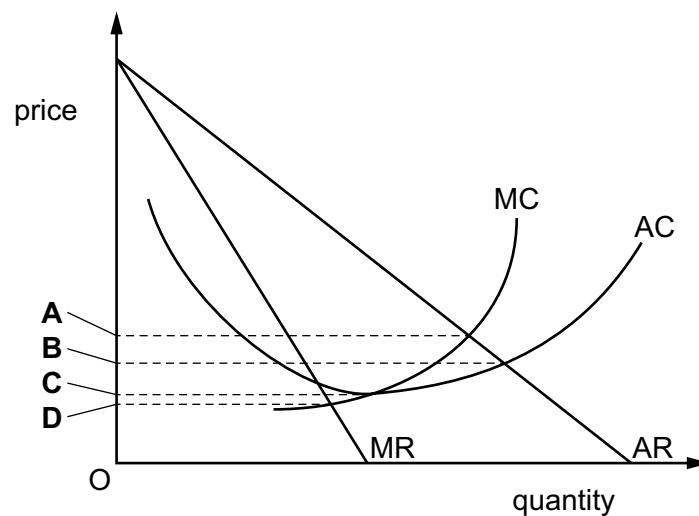
This document has **12** pages. Any blank pages are indicated.

- 1 A project has a social cost of \$100 million, a private cost of \$40 million and an external benefit of \$20 million. Its net social value is zero.

What can be concluded about the project?

- A External cost is greater than external benefit.
 B Private cost is greater than external cost.
 C Private cost is greater than private benefit.
 D Social cost is greater than social benefit.
- 2 The diagram shows the cost and revenue curves for a firm.

At which price does allocative efficiency occur?



- 3 A government is considering building a new railway line in its country. It has to choose one of four high-speed routes.

The benefits and costs of each route are shown below.

Which route should be chosen?

	private benefits \$bn	external benefits \$bn	private costs \$bn	external costs \$bn
A	14	20	0.4	0.1
B	16	22	1.6	0.4
C	18	12	0.2	1
D	20	18	2	4

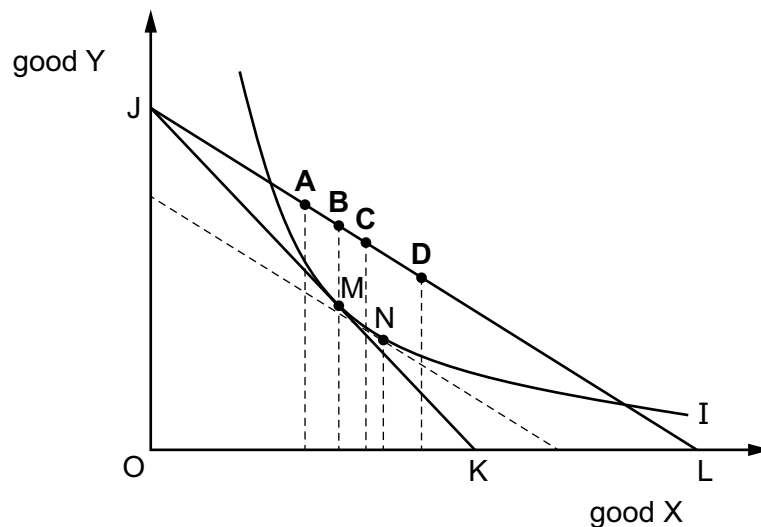
- 4 The table shows the total utility gained by a consumer as they consume more apples.

apples consumed	total utility
0	0
1	10
2	18
3	24
4	28
5	30
6	30

At which level of consumption would the marginal utility be zero?

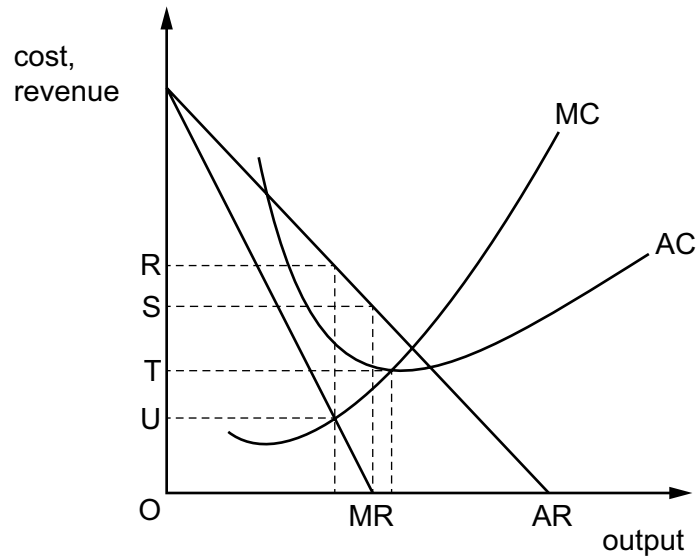
- A** 1 **B** 4 **C** 5 **D** 6
- 5 In the diagram, I is a consumer's initial indifference curve, point M is the consumer's initial equilibrium, JK and JL are budget lines, and MN is the substitution effect of a fall in the price of good X.

If good X is a Giffen good, which point will be the consumer's new equilibrium point after the fall in the price of good X?



- 6 What is an example of horizontal integration?
- A** A bank takes over a travel agent.
- B** A car manufacturer buys a component supplier.
- C** A cotton mill doubles its output of existing products.
- D** Two breweries merge.

- 7 The diagram shows a profit-maximising monopolist.



What would be the change in price if this monopolist changed from profit maximisation to revenue maximisation?

- A** R to S **B** R to T **C** U to S **D** U to T

- 8 The goal of firm X is to make a minimum acceptable level of profit.

What does this describe?

- A** profit maximisation
B profit satisficing
C revenue maximisation
D sales maximisation

- 9 A monopoly firm makes only normal profit in the long run.

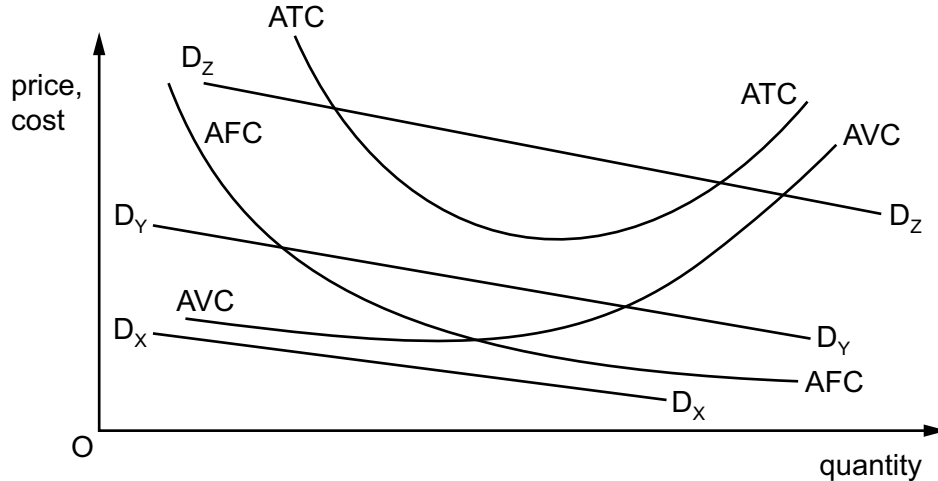
What is most likely to explain this?

- A** The firm has decreasing long-run average costs.
B The firm is a public company with numerous shareholders.
C The firm is owned by a small number of financial institutions.
D The market in this industry is highly contestable.

- 10 The diagram shows the average fixed cost (AFC), average variable cost (AVC) and average total cost (ATC) curves which are the same for three firms X, Y and Z.

D_X , D_Y and D_Z are the three respective demand curves which are different for the three firms.

All three firms seek to make a profit.



Which statement is **not** correct?

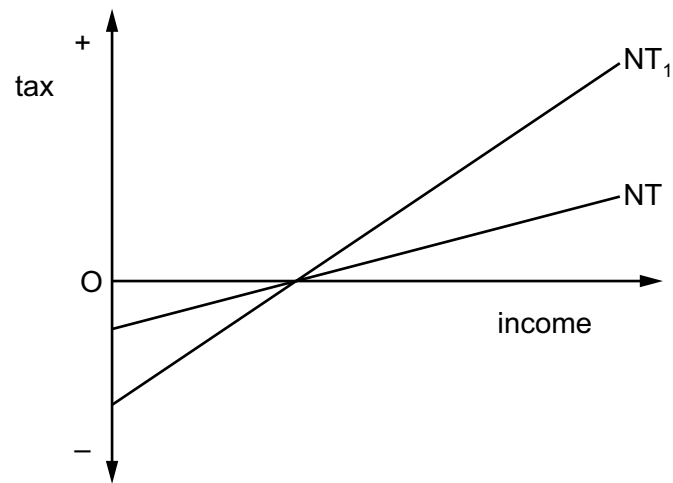
- A Firm X will choose not to produce at all.
 - B Firm Y is likely to operate in the long run but not in the short run.
 - C Firm Y is likely to operate in the short run but not in the long run.
 - D Firm Z will operate in both the short run and the long run.
- 11 When a firm increases all its inputs fourfold, its output increases threefold.

What does this illustrate?

- A decreasing marginal costs
 - B decreasing returns to scale
 - C economies of scale
 - D the law of diminishing returns
- 12 Which characteristic of an industry works towards reducing the barriers to entry for new firms?
- A significant advertising expenditure by existing firms
 - B significant economies of scale
 - C the absence of large costs associated with investment in capital assets
 - D the possession by existing firms of legal rights to produce a product (e.g. patents)

13 A country has a negative income tax.

The curve NT in the diagram shows the country's initial tax schedule.

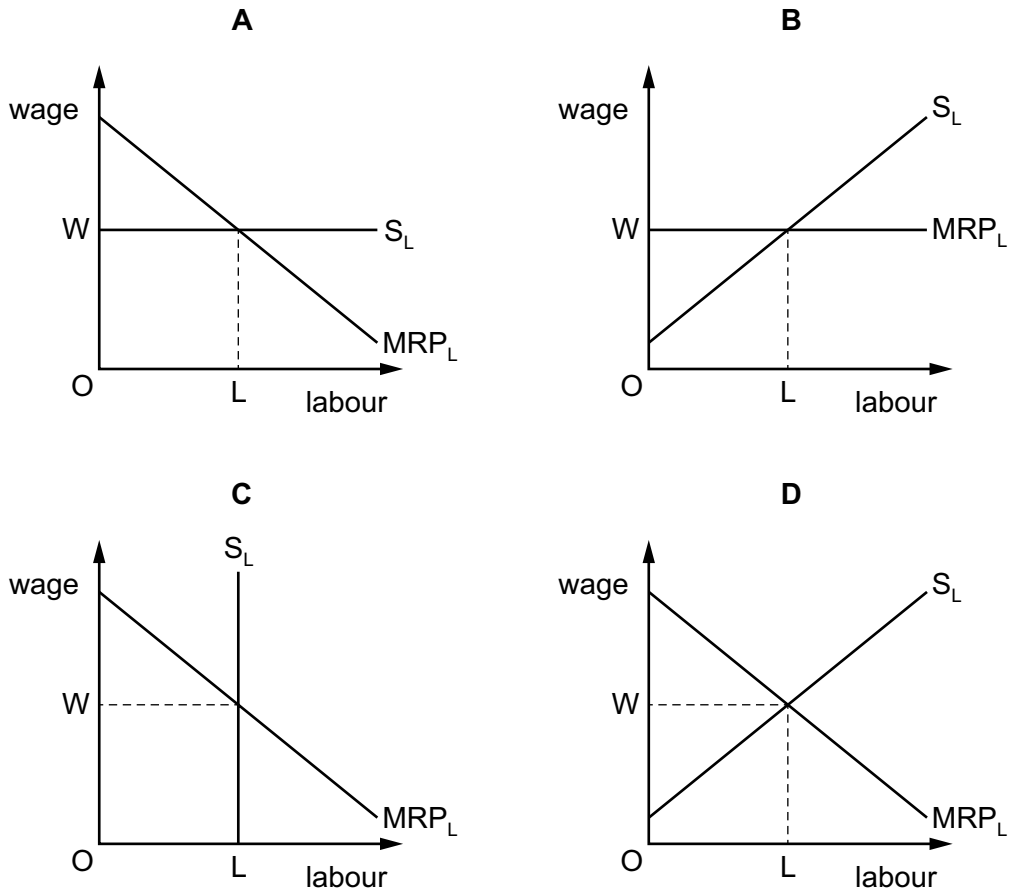


A change in the tax rate causes the schedule to shift to NT_1 .

How will this affect work incentives and the after-tax distribution of income?

	work incentives	distribution of income
A	strengthen	more equal
B	strengthen	less equal
C	weaken	less equal
D	weaken	more equal

14 In which labour market diagram is the economic rent of workers greatest?

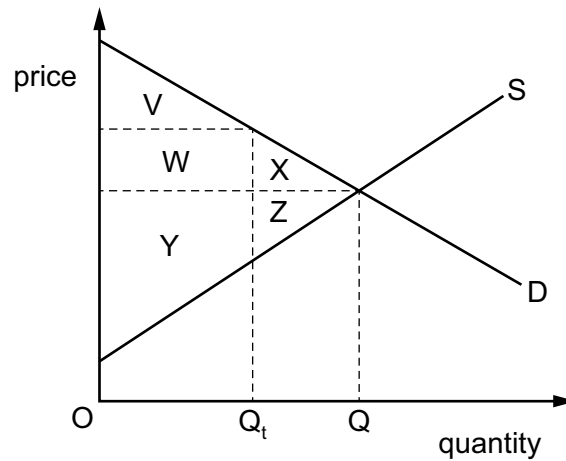


15 The government introduces a minimum wage above the equilibrium market wage rate.

How will this affect low-paid workers according to marginal revenue product (MRP) theory?

- A All those initially in employment will certainly receive the new minimum wage.
- B Fewer of those not already in employment will enter the labour force.
- C There will be an increase in the number of low-paid workers in employment.
- D Some low-paid workers will lose their jobs.

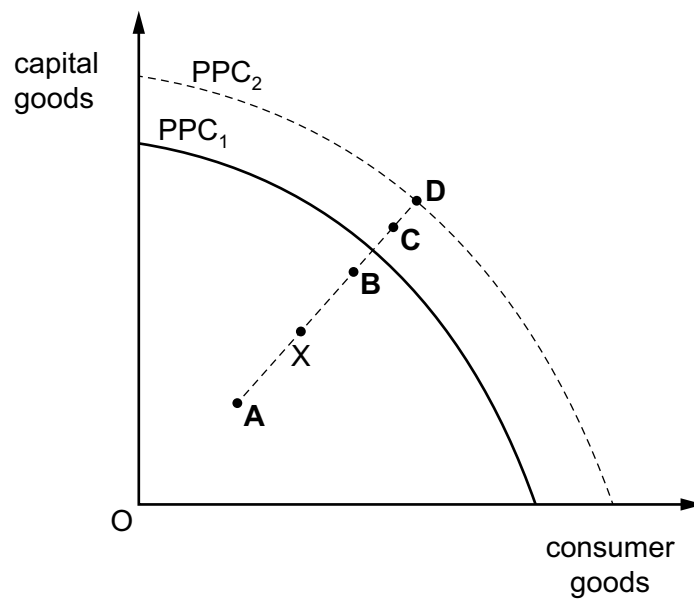
- 16 The diagram shows the change in a market when a government places a production quota OQ_t on the quantity of a good that has previously traded at quantity OQ .



Which welfare loss results from the government's policy?

- A** $W + V$ **B** $W + X$ **C** $X + Z$ **D** $Y + Z$
- 17 The diagram shows a production possibility curve, PPC_1 . The economy is initially at point X.

If the economy achieves actual economic growth but not potential growth, what would the final position be?



- 18 The table shows what has happened to three economic indicators between two years in a country. When would GDP have been the most accurate measure of the standard of living in that country?

	population	inflation rate	income distribution
A	constant	low and stable	equal
B	constant	low and unstable	unequal
C	rising	low and stable	equal
D	rising	low and unstable	unequal

- 19 Which change would directly affect a country's Human Development Index (HDI)?

- A** a change in average hours worked by the labour force
- B** a change in life expectancy of the population
- C** a change in the level of urbanisation
- D** a change in the size of the population

- 20 The table gives unemployment rates (%) for four countries in 1993 and 2002.

	UK	Japan	France	Italy
1993	10.5	2.5	11.4	10.1
2002	5.0	5.4	8.8	8.5

What can be concluded from the table?

- A** France had the lowest rate of employment in both years.
 - B** Italy had the most employed people in 2002.
 - C** Japan more than doubled its labour productivity between 1993 and 2002.
 - D** The UK created most jobs between 1993 and 2002.
- 21 A government in a high-income economy wishes to reduce cyclical unemployment. Which policy is likely to be most effective?
- A** decrease government expenditure and increase income tax
 - B** decrease the government's budget deficit
 - C** increase government expenditure and decrease income tax
 - D** increase the government's budget surplus

22 What does the Kuznets curve represent?

- A changes in income inequality over time
- B changes in the Human Development Index over time
- C changes in the Multidimensional Poverty Index over time
- D the inverse of a Lorenz curve

23 In an open economy with a government sector, the marginal propensity to import is 0.3, the marginal propensity to tax is 0.3 and the marginal propensity to save is 0.2.

What is the value of the multiplier?

- A 1.25 B 2 C 2.5 D 5

24 Which macroeconomic policy aims are most likely to complement one another?

- A high growth and low inflation
- B high growth and low unemployment
- C low inflation and low unemployment
- D low unemployment and a balance of trade surplus

25 The central bank of a country creates cash to purchase government bonds from the commercial banks.

What is this called?

- A liquidity preference
- B quantitative easing
- C supply-side policy
- D the multiplier

26 Which statement about government intervention is correct?

- A Government failure may result from policies that have unintended side effects.
- B Governments cannot identify the existence of inefficiency.
- C Inefficient government policies mean that the market system will be better at resource allocation.
- D Market failure means that government action will necessarily improve the situation.

27 All else remaining unchanged, what would result in an outflow of capital funds from a country?

- A a fall in the country's rate of inflation
- B an expected appreciation of the country's exchange rate
- C an increase in foreign interest rates
- D an increase in foreign prices

28 In country X the government aims to protect jobs.

Which policy is most likely to succeed?

- A decrease restrictions on immigrant labour
- B decrease subsidies to domestic producers
- C increase general tariffs on imports
- D remove quotas on imports

29 Which row shows characteristics of a fast-growing economy?

	GDP per capita	birth rate	household saving ratio
A	falling	falling	rising
B	falling	rising	falling
C	rising	falling	rising
D	rising	rising	falling

30 Which adjustments to real GDP per capita might make it a more reliable indicator when comparing standards of living in different countries?

- A adjustments to allow for differences in the level of government spending in different countries
- B adjustments to allow for differences in the rates of inflation in different countries
- C adjustments to allow for differences in the amount of economic activity that is not reported to the government in different countries
- D adjustments to allow for differences in the value of exports from different countries

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