



CANDIDATE
NAME

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CENTRE
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CANDIDATE
NUMBER

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SECONDARY 6

08 /08 /24

ECONOMICS

Paper 3

1 Hour

You must answer on the MCQ answer sheet.

You will need: MCQ answer sheet

Soft clean eraser

Soft pencil (type B or HB is recommended)

INSTRUCTIONS

- Answer **all** questions.
- Use the black or dark blue pen.
- Write your name, center number and candidate number in the boxes at the top of the page.
- Write your answer to each question in the space provided
- Do **not** use an erasable pen or correction fluid.
- You should show all your working in the booklet.
- You are **not** allowed to use a calculator.

INFORMATION

- The total mark for this paper is 30.
- The number of marks for each question or part question is shown in brackets []

For Teacher's Use	
Page No	Marks
2	
3	
4	
5	
6	
7	
8	
9	
Total	30

Invigilator's Name:

Invigilator's Sign:

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 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

3. 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.

4. When can an economy be said to be economically inefficient?

- A when it is possible to make some people better off without making other people worse off
- B when the distribution of income is socially unacceptable
- C when the government sector is growing at the expense of the private sector
- D when wage rates rise faster than production

5. A food processing firm discharges waste water into the lake next to its factory.

What would reduce the difference between the private cost and the social cost of the firm's actions?

- A** Local residents are given the right to buy the firm's food at a discount.
 - B** The government subsidises the food processing firm.
 - C** The lake is bought by the food processing firm.
 - D** The waste water flows from the lake into the sea.
6. In the long run, what is a feature of monopolistic competition, but **not** of perfect competition?
- A** a small number of buyers
 - B** product differentiation
 - C** the existence of abnormal profits
 - D** the existence of barriers to entry
7. What is **not** an example of an externality?
- A** A new firm is established in an area and pays its workers higher wage rates than other firms.
 - B** The flowers planted by a householder in his garden give pleasure to his neighbours.
 - C** The immunisation of children against smallpox reduces the danger of the risk of infection to others.
 - D** The installation of security cameras in a city centre results in an increase in thefts elsewhere.
8. The production of a good creates a constant marginal external cost at all levels of output.
- What value of price elasticity of demand for the good will cause the greatest deadweight welfare loss from the externality?
- A** between zero and one
 - B** equal to one
 - C** greater than one
 - D** zero

9. What arises in situations where there are costs or benefits associated with a transaction that are **not** fully reflected in market prices?
- A allocative efficiency
 - B allocative inefficiency
 - C productive efficiency
 - D productive inefficiency
10. To maximise the satisfaction she derives from a given level of expenditure on two goods, X and Y, how should a consumer allocate her expenditure between the two goods?
- A marginal utility X = marginal utility Y
 - B marginal utility X \times price of X = marginal utility Y
 - C $\frac{\text{marginal utility X}}{\text{price of Y}} = \frac{\text{marginal utility Y}}{\text{price of X}}$
 - D $\frac{\text{marginal utility X}}{\text{marginal utility Y}} = \frac{\text{price of X}}{\text{price of Y}}$
11. Which characteristic would make it easier for firms in an industry to collude?
- A a large number of firms
 - B homogenous products
 - C low barriers to entry
 - D rapid technological change
12. Building a hospital has a social cost of \$200 million. The social benefit is \$240 million; external benefit is \$150 million.
- What can be concluded from this information?
- A external benefit is greater than external cost
 - B external benefit is greater than private benefit
 - C private benefit is greater than private cost
 - D the project should not take place

13. What is a characteristic of a highly contestable industry?
- A a reduction in abnormal profits
 - B a substantial volume of advertising by existing firms
 - C relatively few firms in the industry
 - D significant sunk costs incurred by new entrants to the industry
14. The list provides characteristics of the market in which firm X operates.
- Firms in the market spend a lot of money on advertising.
 - Firms in the market experience a high level of uncertainty.
 - Start-up costs for new firms entering the market are relatively high.
 - The largest five firms in the market control 85% of total sales.

In which market structure is firm X operating?

- A monopoly
 - B monopolistic competition
 - C oligopoly
 - D perfect competition
15. Which statement about the 'kinked demand curve' model of oligopoly is **incorrect**?
- A The kink in the demand curve of each firm is based on expectations about other firms' responses to changes in its price.
 - B The marginal revenue curve of the firm has a vertical segment at the market price.
 - C The model explains how the equilibrium market price is determined.
 - D The model suggests price stickiness within a certain range of marginal costs.

16. A medical team in a refugee camp provides vaccinations for children to prevent an outbreak of an infectious disease.

Why would this be described as a positive externality?

- A** Additional benefit might be gained as the disease no longer spreads.
 - B** Any kind of medical help will improve the condition of the children.
 - C** No action would be taken unless the medical team intervened.
 - D** The social benefits of vaccination are less than the social costs.
17. An economist undertakes a cost-benefit analysis of the pollution resulting from a manufacturing process.

Which judgement is most likely to guide any recommendation about the appropriate level of manufacturing output?

- A** that the marginal social cost of manufacturing equals the marginal social benefit
- B** that the marginal cost of pollution is zero
- C** that the total revenue of manufacturing equals the total cost
- D** that the total benefit of pollution is maximised

18. In the short run, a firm produces an extra unit of output.

Which of the firm's production costs will change?

- A** fixed cost only
- B** fixed cost and variable cost
- C** variable cost only
- D** variable cost and total cost

19. The table shows a firm's total and marginal costs.

output	total cost (\$)	marginal cost (\$)
1	340	40
2	375	35
3	400	25
4	435	35
5	475	40

What is the average fixed cost of producing 6 units?

- A** \$50
- B** \$60
- C** \$180
- D** \$300

20. When will a cartel find it most difficult to fix the market price of its product?

	proportion of firms in the industry that are members of the cartel	barriers of entry into the industry
A	high	high
B	high	low
C	low	high
D	low	low

21. Which statement is correct?

- A** $\text{marginal social benefit} = \text{marginal private benefit} - \text{marginal external benefit}$
B $\text{marginal social cost} = \text{marginal private cost} + \text{marginal external cost}$
C $\text{negative externality} = \text{marginal social benefit} - \text{marginal social cost}$
D $\text{positive externality} = \text{marginal private benefit}$

22. The table shows a firm's total and marginal costs.

output	total cost (\$)	marginal cost (\$)
1	200	20
2	215	15
3	225	10
4	240	15
5	260	20

What is the average fixed cost of producing 6 units?

- A** \$20 **B** \$30 **C** \$180 **D** \$200

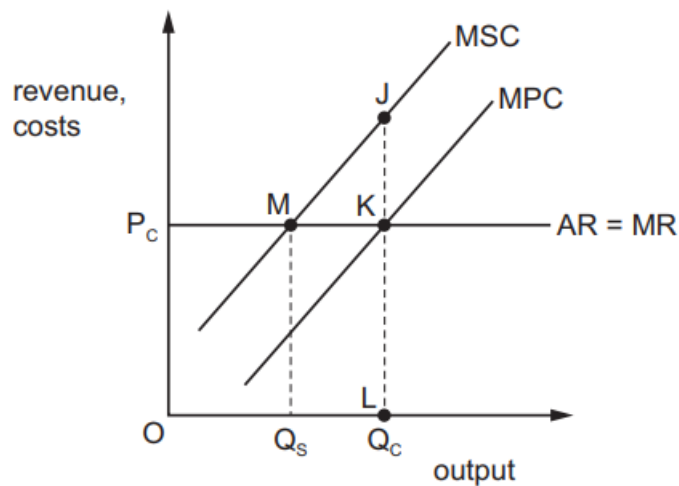
23. The following schedule gives information about a firm's costs.

total variable costs	\$6400
average fixed costs	\$20
average total costs	\$100

Which output would be consistent with these costs?

- A** 32 units **B** 50 units **C** 64 units **D** 80 units
24. What is the main aim of cost-benefit analysis?
- A** to allow firms to maximise their private benefit and minimise the external cost
- B** to equate total social benefit to the total social cost of a project
- C** to find the correct level of direct tax to internalise the external cost of a project
- D** to find the highest positive difference between total benefit and total cost

25. The diagram shows a firm in perfect competition that creates pollution.



What represents the external cost?

- A** JK **B** JM **C** KL **D** MK

26. What is achieved in monopolistic competition in the long run?

	allocative efficiency	supernormal profit
A	no	no
B	no	yes
C	yes	no
D	yes	yes

27. A Chinese firm has total fixed costs of 1000 Yuan. The firm's average variable cost is 10 Yuan and its average total cost is 15 Yuan.

What is the firm's output?

- A** 10 units **B** 66 units **C** 200 units **D** 5000 units
28. What is **not** a requirement for the law of diminishing returns to operate in the short run?
- A** At least one factor will be fixed in quantity.
B Average returns to a variable factor will increase then fall.
C Marginal product of a variable factor will increase then fall.
D Inputs of all of the factors will be variable.
29. What is necessary for price discrimination to be profitable in different markets?
- A** There must be many buyers.
B There must be markets with different price elasticities of demand.
C There must be product differentiation.
D There must be geographically separate markets.
30. Which act of purchase or consumption is most likely to illustrate the law of diminishing marginal utility?
- A** the final course of an 'eat all you can' banquet to end an evening out
B the last coin to complete an enthusiast's coin collection
C the second of the two rolls of wallpaper needed to decorate a room
D the tenth driving lesson needed to enable a learner to pass the driving test