ECONOMICS MULTIPLE CHOICE QUESTIONS

+ ANSWERS EXPLAINED

A LEVEL FREE SAMPLE

Questions from 9708 Cambridge
past papers CLASSIFIED BY TOPIC

Table of Contents

TOPIC 1

Law of Diminishing Marginal Utility, Indifference Curves and Budget Lines.

Economics multiple-choice questions + Answers explained

1. The table shows the total utility that an individual derives from consuming different quantities of a good.

| quantity of good (units)	total utility (units)
I	24
2	45
3	63
4	78
5	90
6	99

The individual's marginal utility of money is SI =2 units of utility.

What is the maximum quantity of the good that the individual will buy when its price is $6?

A 2 units　　　　　　B 3 units

C 4 units　　　　　　D 5 units

[N13/P3/Q2]

2. The line RS in the diagram shows the different combinations of goods X and Y that a consumer can afford with her present income.
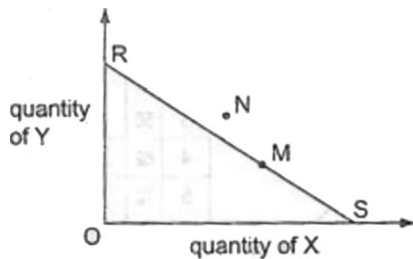

The consumer's original equilibrium is at M.

What could explain a subsequent change in her equilibrium position to N?

A　a change in her tastes

B　an increase in the price of X and a fall in the price of Y

C　an increase in the price of X and a smaller percentage increase in the price of Y

D　equal percentage increases in her income and in both prices

[N13/P3/Q3]

3.　In the diagram, a consumer's initial budget line is JK.
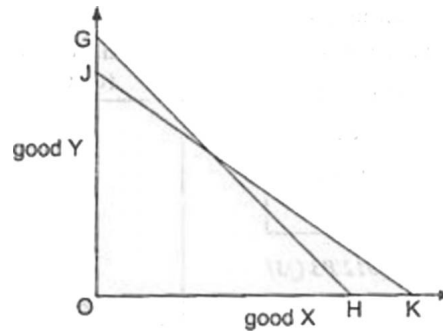
Assuming no change in the price of X, what could explain a shift in the consumer's budget line to GH?

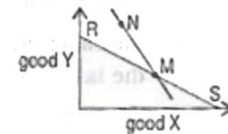|	price of good Y	consumer's money income
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

[J14/P3/Q2]

1.　D In order to obtain each unit of the good, the consumer sacrifices 12 units of utility. The consumer will continue to purchase up to the point where

MUgood =MUmoney

unit	MU good	MU money
1	24	12
2	19	12
3	18	12
4	15	12
5	12	12
6	9	12

**2. B**

A change in equilibrium to point N suggests a pivotal outward shift on Y- axis and inward shift on X-axis. This may be caused by an increase in the price of X and a fall in the price of Y

3 . A A decrease in the Price of Y shifts the curve pivotal upward on y-axis, while a decrease in income with no change in the Price of X shifts the curve pivotal inward on x-axis.

4. The diagram shows two indifference curves for a consumer.
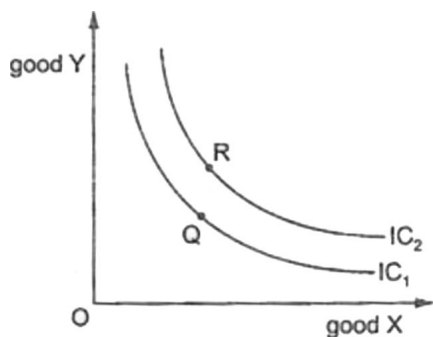
What can be concluded if the consumer's equilibrium moves from Q to R?

A The consumer is acting rationally.

B The consumer's money income is unchanged.

C The opportunity cost of good Y is constant.

D The price of good X has risen.

[J17/P3/Q4]

5. When the price of a good falls the effect on the quantity demanded is the result of an income effect and a substitution effect.

Which statement about these effects is correct?

A For inferior goods the income effect and the substitution effect work in the same direction.

B For inferior , but not Giffen , goods the income effect outweighs the substitution effect.

C For normal goods the income effect and substitution effect work in the same direction.

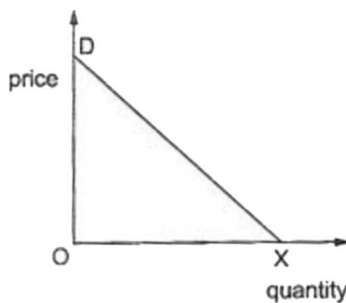D For normal goods the income effect outweighs the substitution effect.

[J17/P3/Q5)

6. What would not affect the budget line of an individual consumer?

A the individual's preference for various goods

B the level of income tax

C the money prices of goods

D the wages earned by the individual

[JI8/P3/Q5]
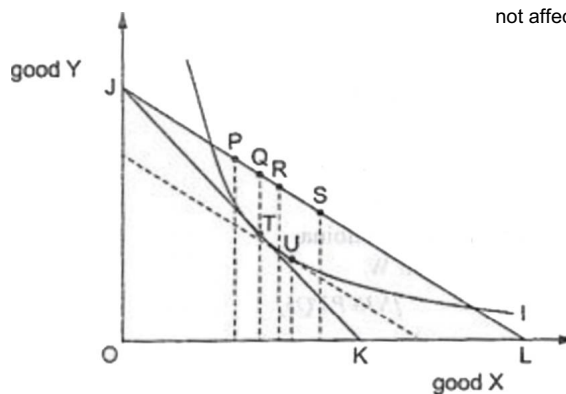
7. The diagram shows the demand curve for a product.

What is maximised at X?

A marginal revenue

B total revenue

C marginal utility

D total utility

[J18/P3/Q6]

8. The diagram shows budget lines and an indifference curve . The consumer 's initial position is T. The price of good X then falls.

Which combination of statements about the movements in this diagram is correct?

4. A The further an Indifference curve (IC) drawn from the origin, the higher the level of satisfaction. The consumer, therefore, acts rationally when he shifts the equilibrium to the highest possible IC.

5. C Substitution and income effect for a normal good move in the same direction because the relative decrease in the price of the good will result in an increase in quantity demanded , because it is now cheaper than substitutes, and lower price will increase the purchasing power, increasing overall consumption.

6. A A budget line shows real income be- cause it is drawn with the assumptions that money income and prices of the goods remain unchanged. Therefore, changes in either of the two or both would shift the budget line. A change in consumer's preferences is indicated by a change in combination of two goods on the same bud- get line, therefore it does not affect the budget line.

A   T to Q represents perfect elasticity; T to P represents a Giffen good

B   T to R represents an income effect ; R to S represents a substitution effect

C   T to U represents a substitution effect; T to Q represents a normal good

D   T to U represents a substitution effect; U to P represents an income effect

[N18/P3/Q4]

7. D Consumer is willing to obtain quantity Y at zero price, therefore it would reduce both TR & MR to zero . Thus options A & B are incorrect.

A consumer is willing to pay as much as the MU he derives from each unit and the graph suggests that he is willing to obtain the last unit of quantity Y at zero price that makes MU to fall to zero hence option C is incorrect .

TU is the sum of MU that the consumer derives from all individual units he consumes up to quantity Y hence it is maximized.

8. D Movement along the same indifference curve from T to U suggests positive substitution effect for all gcods. Thus options A & B are ruled out.

Income effect of normal goods is also positive and it is indicated by a movement from U to S. Hence option C is ruled out.

Giffen goods have a negative income effect that outweighs positive substitution effect. Thus a movement from T to U on the new budget line is due to income effect indicating a fall in Q that is more than a rise caused by substitution effect.
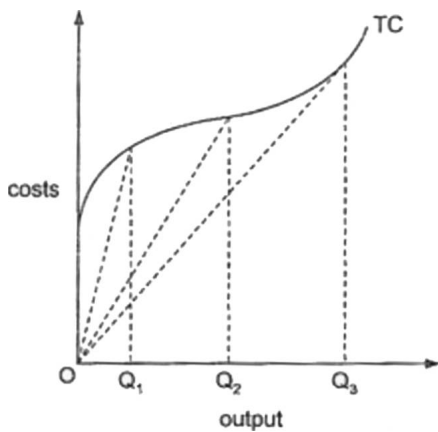
Types of Cost, Revenue and Profit

Economics multiple-choice
questions + Answers explained

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1. In the diagram, TC is a firm's short-run total cost curve.

Which statement is correct?

A Average total cost is minimised at output OQ2.

B Average variable cost is minimised at output OQ1.

C Average variable cost is minimised at output OQ3.

D Marginal cost is minimised at output OQ2.

[N16/P3/Q9]

2. The table shows the total cost of a firm.

output	total cost ($)
0	40
1	55
2	60
3	65
4	80

What is the average variable cost of producing 4 units of output?

A $10   B $15

C $20   D$40

[N16/P3/Q10]

3. Which is not a source of market failure?

A imperfect information

B income inequality

C monopoly

D non-excludability

[N16/P3/Q14]

4. The government wants to regulate the consumption of a demerit good in order to increase society's net welfare. In which situation will society's net welfare increase?

A The fall in the marginal social benefit is greater than the fall in the marginal social cost.

B The fall in the marginal social cost is greater than the fall in the marginal social benefit.

C The fail in the total social benefit is greater than the fall in the total social cost.

D The fall in the total social cost is greater than the fall in the total social benefit.

[N16/P3/Q15]

5. In 2015 , a large mining company said it would reduce the number of staff by 6000 and sell its less profitable mines in an attempt to become more efficient.

If it is successful, what is most likely to happen to its costs?

	total fixed cost	total variable cost	average cost
A	fall	fall	fall
B	fall	fall	no change
C	fall	no change	fall
D	no change	fall	fall

[N17/P3/Q2]

1. D MC as measured by the slope between two successive points on TC curve is the lowest at Q2 . ATC refers to the slope of each point on a TC curve from origin therefore A is incorrect . AVC refers to the slope of each point on a TVC curve from origin.

2 . A At zero output Total Cost = Fixed Cost . In this case Fixed Cost = 40 and Total Cost = Fixed Cost + Variable Cost.

Then VC/Q = AVC

($80-$40)/4=$10

3 . B It refers to equity therefore not related to efficiency or market failure.

4 . D Demerit goods are associated with higher Social costs therefore greater fall in Social Costs will improve net welfare.

5 . A Selling mines would lower total fixed cost while lowering the number of workers would reduce variable cost . These two would eventually lower Average Cost.
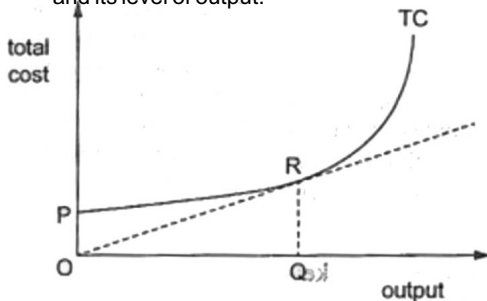
6. The diagram shows the cost curves for a firm.
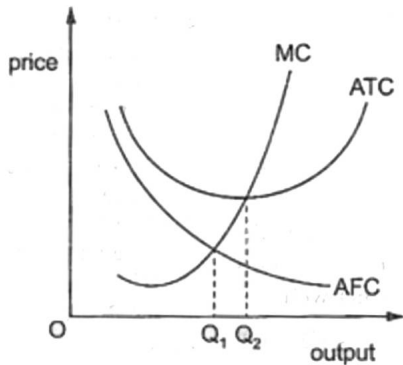
What does the firm experience as it increases output from Q1 to Q2?

A decreased average variable cost

B diminishing returns

C economies of scale

D increased profit

[N17/P3/Q5]

7. In the diagram the curve TC shows the relationship between a firm's total costs and its level of output.
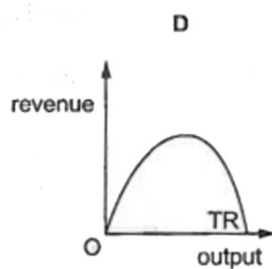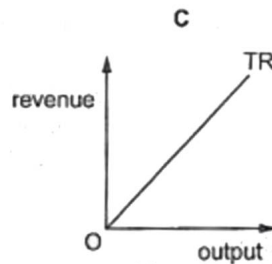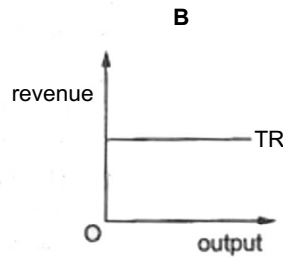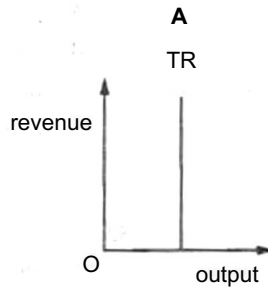

At output OQ average fixed costs are

A equal to $\dfrac{OP}{QR}$.

B equal to $\dfrac{OR}{OQ}$

C equal to $\dfrac{OP}{OQ}$

D measured by the slope of the line OR.

[N17/P3/Q7]

8. Which diagram shows the total revenue function for a firm in perfect competition?

A

B

C

D

[N17/P3/Q8]

9. In the year ending July 2016, airline fuel prices fell by 20.4% while the price of passenger aircraft increased by around 1.1%.

Assuming no other changes in the passenger airline industry, what was the outcome for fixed costs and variable costs?

6. B Diminishing returns causes MC to rise. Q1 can be marked as the lowest point on AVC and after that, it rises therefore A is incorrect. Economies of scale are operative in the long run while curves suggest short run, therefore C is incorrect. For profit we need to have revenue curves along with cost curves, this rules out D

7. C At zero output,

Total Cost = Fixed Cost

Average Fixed Cost =

Fixed cost /Quantity

Fixed cost = OP

Quantity = OQ

AFC = OP/OQ

8. C Since a firm in a perfectly competitive market can sell its output at the market price, therefore its AR = MR = P. So each additional unit sold adds same to the TR and hence TR increases at a constant rate.

	fixed costs	variable costs
A	decreased	decreased
B	decreased	increased
C	increased	decreased
D	increased	increased

[J18P3/Q8]

10. The schedule shows the short-run marginal cost of producing good X.

units of X	1	2	3	4	5
marginal cost ($)	45	40	30	20	20

Given that the total fixed cost is $50, which level of output minimises average total cost?

A 2 units   B 3 units

C 4 units   D 5 units

[N18/P3/Q6]

9. C Cost on fuel is dependent on output, therefore it is part of airline's variable cost and with no other changes a fall in fuel price must have decreased airline 's variable cost. Therefore an increase in price per passenger must have resulted from an increase in airline's fixed cost.

10. D When output = 0. firm's TC = FC. We then progressively add MC in order to obtain TC for each increasing level of output and in order to obtain ATC we divide TC at each level of output on its corresponding level of output.

Average total cost lowest at 5 units of output.

Unit of X	MC	TC	ATC=TC/Q
0		50	-
1	45	95	95
2	40	135	67.5
3	30	165	55
4	20	185	46.25
5	20	205	41

END OF FREE SAMPLE

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The fundamental economic problem

EXAMPLE   **EXAMPLE**

01

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11. Behavioural economics
12. Types of goods
13. Costs and benefits
14. Market failure
15. Microeconomic policies
16. Population
17. Aggregate demand and supply
18. Inflation and deflation
19. Policies to correct inflation and deflation
20. Unemployment
21. Macroeconomic policies
22. International Trade
23. Exchange rates
24. Balance of payments
25. Policies to correct Balance of payments Disequilibrium

The fundamental economic problem

The fundamental economic problem is:

'scarce resources in relation to unlimited wants'.

1 Scarcity: The excess of human wants over what can actually be produced to fulfil these wants

2 Resources: inputs available for the production of goods and services.

3 Wants: needs that are not always realised.

Choice

Choice underpins the concept that resources are scarce so choices have to be made by consumers, firms, and governments.

Sacrifice

Choice involves sacrifice. The more food you choose to buy, the less money you will have to spend on other goods.

Opportunity cost

In other words, the production or consumption of one thing involves the sacrifice of alternatives. This sacrifice of alternatives in the production (or consumption) of a good is known as its opportunity cost.

Opportunity cost is the cost expressed in terms of the best alternative that is forgone.

EXAMPLE

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Question

'Both the take-up rate and number of journeys per bus pass have been falling in recent years.'

Explain two factors which could lead to an increase in the demand for bus travel in the future.

(10 marks)

Category: Demand and supply

AQA AS ECONOMICS November 2020

💡 Answer

Tip: Generally, AQA exam questions are accompanied by an extract (although we have not included it here for simplicity). To score higher marks, refer back to the data (facts and figures) given in the extract, when writing your essay! Note that in this question you are asked to 'explain TWO factors'. In this case, it's a good idea to break your essay in two parts: Factor 1 and factor 2.

(Step 1: Define 'demand' in the introduction)

Demand refers to both the willingness and the ability of customers to pay a given price to buy a good or service. There are several factors which could lead to an increase in the demand for bus travel in the future.

(Step 2: Explain TWO factors which could increase the demand for bus travel)

🚌 Factor 1: A change in tastes or social norms will increase the demand for bus travel. 🚌

Today, travelling by bus has the image of being unpleasant, unreliable and for the 'lower class'. However, more awareness is being raised about air pollution, climate change and Co2 emissions. People in future may perceive bus travel as being more ecologically and economically efficient. Furthermore, with the introduction of smart lanes and electric buses, the experience of travelling by bus will improve with time. These factors will encourage people to take the bus.

If more people become aware that travelling by bus is environmentally friendly, more people will opt for bus travel to reduce their carbon footprint. The demand for bus travel will increase. The effect of an increase in demand for bus travel can be shown using a diagram. The diagram below shows the demand and supply curves of bus travel.

Bus fares $ — BUS TRAVEL — Journeys taken by bus (Quantity demanded and supplied of bus travel)
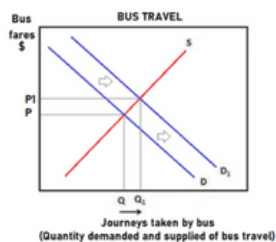
Initially, people are unaware of the environmental benefits of bus travel, the equilibrium price (bus fare) is P and the equilibrium quantity (number of journeys taken by bus) is Q. Following campaigns raising awareness about air pollution, more people will be encouraged to travel by bus instead of using their cars. The demand curve for bus travel shifts rightward from D to D1. The quantity demanded and supplied for bus travel increases from Q to Q1.

🚌 Factor 2: If the price of substitutes such as car travel increases, then people will turn to bus travel instead because of its more favourable relative price. 🚌

Substitutes are alternative goods and can satisfy the same want or need. Examples of substitutes are car travel and bus travel. For example, if the price of car travel increases significantly, people will look for cheaper alternatives, such as bus travel.

The cost of travelling by car can increase in the future, for instance, due to higher fuel prices. Consequently, if the cost of travelling by car goes up in the future, people will avoid travelling by car, and take the bus instead. The demand for bus travel will increase.

The government may also subsidise bus travel in the future, making bus fares cheaper. This will encourage people to switch away from using their cars to travelling by bus.

(Step 3: Conclude)

To conclude, the demand for bus travel could increase in the future if people perceive busses as being more ecologically and economically efficient. Also, if the price of substitutes such as car travel increases, then people will turn to bus travel instead because of its more favourable relative price.

MARKING SCHEME

Relevant issues include:
• meaning of 'demand'
• lower relative price and/or greater availability compared with substitute goods
• increased subsidy
• changes in tastes and/or social norms
• changes in income and/or consideration of bus travel as an inferior good
• increased population and/or changes in age structure
• the significance of elasticities.

Level 3

An answer that:
• identifies two valid factors
• shows sound knowledge and understanding of relevant economic terminology, concepts and principles
• includes good application of relevant economic principles and/or good use of data to support the response
• includes well-focused analysis with a clear, logical chain of reasoning
• may include a relevant diagram to support their explanation

EXAMPLE

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STEPS TO ANSWER A DATA RESPONSE QUESTION

SKIM THE DATA

Start by skimming the data. Read the text quickly to get a general idea of meaning.

SKIM THE DATA

COMPETITION IN THE SKIES OVER EUROPE

LOOK AT THE TITLE

Look at the title as it may give some clues about its content.

It was predicted that this would lead to an increase in the market share for the top five European airlines from **50% of the European market in 2019 to match the top five United States (US) airlines, which control 77% of the US market.**

ANALYSE FACTS, FIGURES AND TABLES

Analyse facts, figures tables and diagrams. See if you know what they mean. Pick out any notable features of a chart or diagram.

STEP 01 — First reading: Skim the data

STEP 02 — Look at the questions and requirements

STEP 03 — Second reading: Spot the keywords

STEP 04 — Write the answer

Read the Requirements

Always read the requirement **first** as this enables you to focus on the detail of the question with the specific task in mind.

What is the point in reading a scenario if you don't know what you are looking for? If you don't read and understand the requirements carefully, then you will find that you are not actually answering the question. If you are not answering the question, then you are not earning marks.

Pay attention to (1) The content and (2) The instructions

Explain what is meant by a contestable market and discuss how making the airline market more **contestable** could benefit passengers.

... contestable market...benefit

THE CONTENT

When you read each part of the requirement, highlight the 'content'. This is simply what the question is about. This helps you to focus your mind on the actual question rather than answering what you thought the question was going to ask you.

Explain

Explain what is meant by a contestable market and discuss how making the airline market more contestable could benefit passengers.

THE INSTRUCTIONS

This instruction could be a whole variety of verbs ranging from numerical requirements such as calculate and apply, or more wordy requirements such as describe, interpret, outline or compare. The verb used has been carefully thought about by the examiner, taking into account any restrictions imposed by the syllabus.

(d) Explain two reasons why a government may privatise an industry. [4]

There are several reasons why a government may privatise an industry, such as air travel.

Reason 1: Privatising an industry may lead to an increase in government revenue.

The **government may earn more tax revenue** if it privatises a state-owned industry. This is because a privately owned industry has to pay corporation tax. A corporation tax is a tax levied on companies profits.

The sale of a state-owned enterprise to the private sector will also raise money for the government.

In the data, it was mentioned that a successful sale of Air India to the private sector would have raised money for the Indian government.

More tax revenue will enable the government to **increase its spending on education, healthcare or infrastructure**. This will help to **promote development** in the country.

Reason 2: The government may privatise an industry because **the industry is making a loss.**

The need to use tax revenue to finance the loss-making industry will be reduced. The private sector may also manage the industry with **greater efficiency** and turn the loss into a profit. This is because the private sector, **motivated to make a profit**, will **increase productivity** and **reduce costs**.

STRUCTURE

CLEAR HEADINGS

PARAGRAPHS

REFERENCE TO THE DATA

SIMPLE ENGLISH

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Topic

Scarcity, Choice and Opportunity Cost Multiple Choice Questions

Questions

Paper and year

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O level topics

01	Economic Problems
02	Factors of Production
03	Economic Systems
04	Demand, Supply and Equilibrium
05	Perfect Competition and Monopoly
06	Aims of Government and its Role
07	Market Failure
08	Public Expenditure vs Private Expenditur
09	Banks and Stock Exchanges
10	Labour Market
11	Motives for Spending, Saving and Borrowing
12	Different Types and Sizes of Firms
13	Production, Costs, Revenues and Profits

AS level topics

01	Basic Economic Ideas And Resource Allocation
02	Production Possibility Curves
03	Classification Of Goods And Services
04	The Price System And The Micro Economy
05	Price Elasticity
06	The Macro Economy
07	International Trade
08	Protectionism
09	Exchange Rates
10	Government Macro Intervention

A level topics

01	Law of Diminishing Marginal Utility, Indifference Curves and Budget Lines
02	Types of Cost, Revenue and Profit
03	Firms and Market Structures
04	Efficient resource allocation
05	Equity and Policies towards Income and Wealth Redistribution
06	Labour Market Forces
07	National Income Statistics
08	The Circular Flow of Income
09	Money Supply (theory)
10	Economic Growth, Economic Development and Sustainability
11	Government Macroeconomic Policy Aims