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CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Advanced Level

ECONOMICS **9708/03**

Paper 3 Multiple Choice (Extension)

May/June 2003

1 hour

Additional Materials: Multiple Choice Answer Sheet
Soft clean eraser
Soft pencil (type B or HB is recommended)

READ THESE INSTRUCTIONS FIRST

Write in soft pencil.
Do not use staples, paper clips, highlighters, glue or correction fluid.
Write your name, Centre number and candidate number on the answer sheet in the spaces provided unless this has been done for you.

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 separate answer sheet.

Read the instructions on the answer sheet very carefully.

Each correct answer will score one mark. A mark will not be deducted for a wrong answer.
Any rough working should be done in this booklet.

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Local Examinations Syndicate

[Turn over

1 In an economy, no one can be made better off without making someone else worse off.

What does **not** necessarily follow from this?

A The distribution of income is socially acceptable.

B The conditions for allocative efficiency have been met.

C The economy is operating at a point on its production possibility frontier.

D The conditions for productive efficiency have been met.

2 A household makes the following purchases of fruit.

fruit	quantity purchased (kg)	price per kg ($)
bananas	5	1.00
apples	10	0.50

The household derives twice as much utility from the fifth kg of bananas as from the tenth kg of apples.

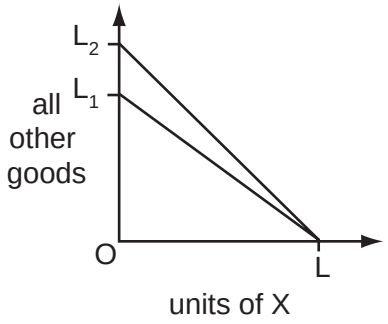
What should the household do to maximise utility from the purchase of these fruits?

	purchase of bananas	purchase of apples
A	increase	decrease
B	decrease	increase
C	increase	increase
D	no change	no change

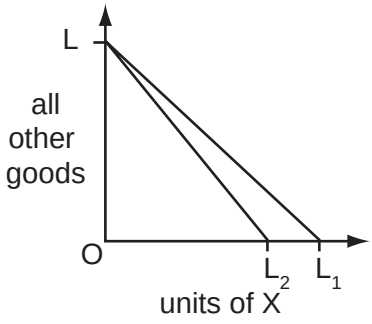
3 The diagrams show a change in a consumer's budget line from an initial position of LL_1 to LL_2.

Which diagram shows the effect of a fall in the price of X, money income remaining unchanged?

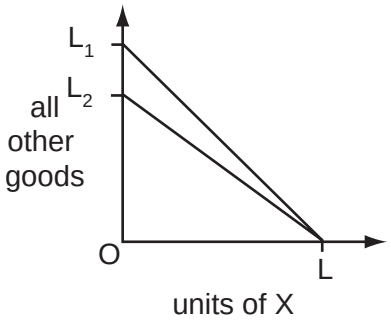
A



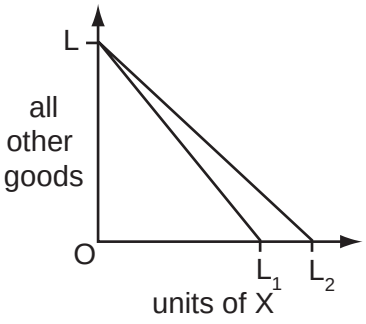
B



C



D



4 A given production process uses both labour and capital.

What will be the effect on the quantities of labour and capital employed if the government introduces a subsidy on capital investment?

	quantity of labour	quantity of capital
A	decrease	uncertain
B	uncertain	uncertain
C	decrease	increase
D	uncertain	increase

[Turn over

5 Which of the following will necessarily cause the supply curve of labour in a particular industry to shift to the right?

A a fall in wages paid in similar occupations

B a greater use of machinery

C an increase in demand for the product

D a strengthening of trade union influence in the industry

6 The introduction of equal pay legislation in a country increases the wages of female workers.

What will be the most likely effect of this increase?

A a reduction of the rate of female unemployment

B a reduction in the wages of male workers

C an expansion in the supply of female workers

D substitution of female workers for male workers

7 Which of the following is an internal economy of scale?

A improved communications as a result of the growth of local industry

B lower risk associated with supplying a wider range of customers

C the training of skilled labour at a technical college financed by all local firms

D trade information from a new trade journal

8 An economist calculates that a firm has incurred the following costs over the course of a year.

	$(000)
wages and salaries	150
opportunity cost of owner's time	40
materials	80
rent	30
marketing fees	20
interest on bank loans	25
interest forgone on finance provided by owner	15
depreciation	20

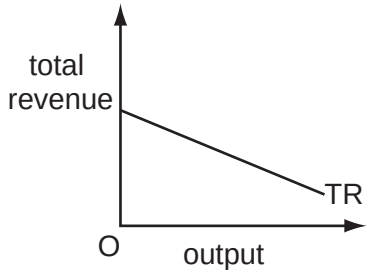
What would an accountant calculate to be the total cost incurred by the firm?

A $275 000 **B** $305 000 **C** $325 000 **D** $340 000

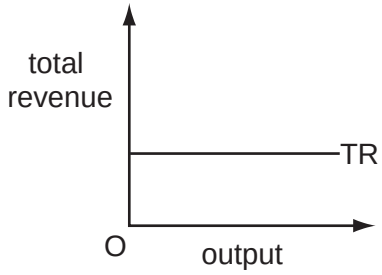
9 A monopolist faces a downward sloping, straight-line demand curve.

Which diagram shows his total revenue curve (TR)?

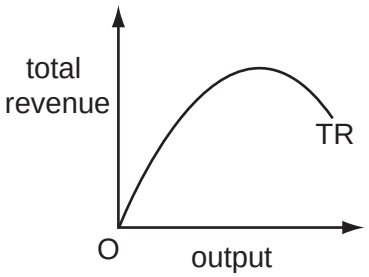
A



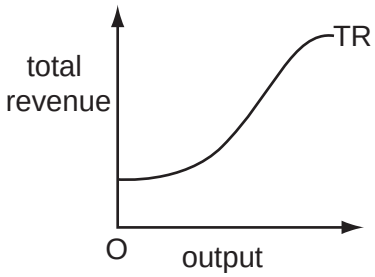
B



C

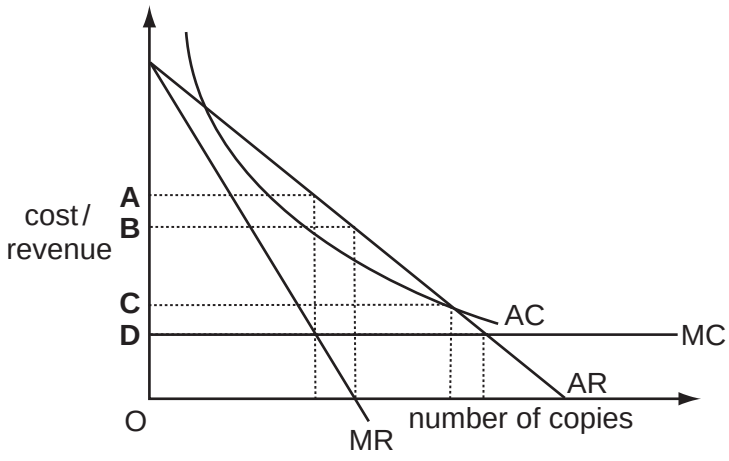


D



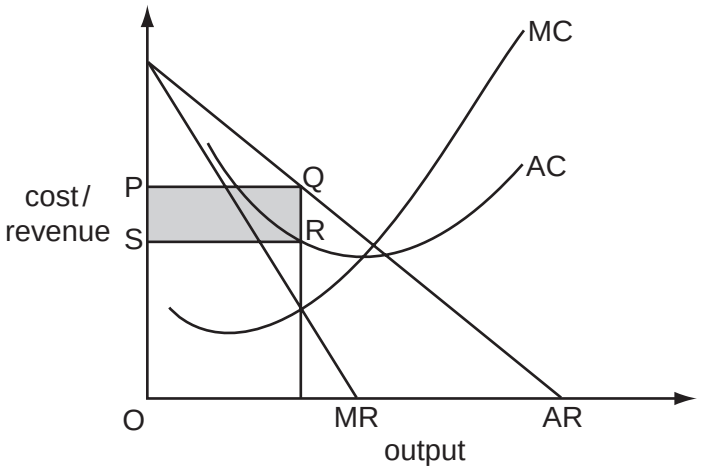
10 The diagram shows the cost and revenue curves for the production of a textbook. The contract with the publisher entitles the author to a fixed percentage of the value of sales.

Which price would maximise the **author's** income from the book?



[Turn over

11 The diagram shows a firm's cost and revenue curves.



What does the shaded area SPQR measure?

A abnormal profit

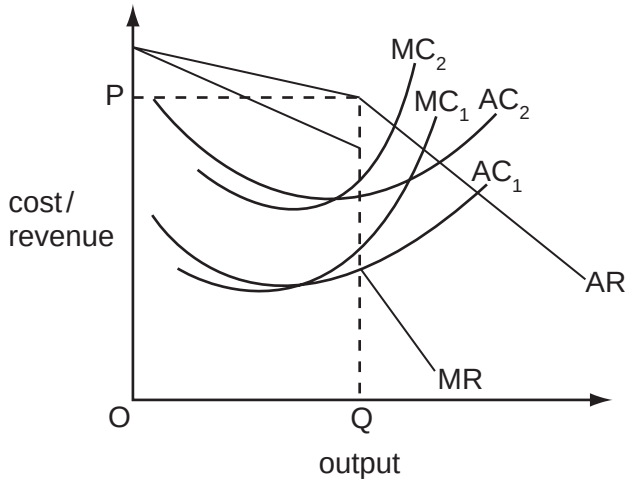
B consumer surplus

C total revenue

D transfer earnings

12 The diagram shows the cost and revenue curves of an oligopolist. In the initial situation, AC_1 is its average cost curve, MC_1 is its marginal cost curve and the firm is in equilibrium at output OQ and price OP.

The cost of labour rises, so that AC_2 and MC_2 become the relevant cost curves.



What should the firm do to maximise profit in this new situation?

A leave both price and output unchanged

B leave price unchanged and increase output

C leave price unchanged and reduce output

D raise price and leave output unchanged

13 A firm produces both X and Y in fixed proportions. A permanent increase in demand for X occurs.

The entrepreneur will increase output of X as long as

A the addition to revenue in the X and Y markets combined is greater than the addition to costs.

B the cost of producing more X is offset by a decrease in the cost of producing Y.

C the marginal cost of X is less than the marginal cost of Y.

D there is a fall in average costs of production.

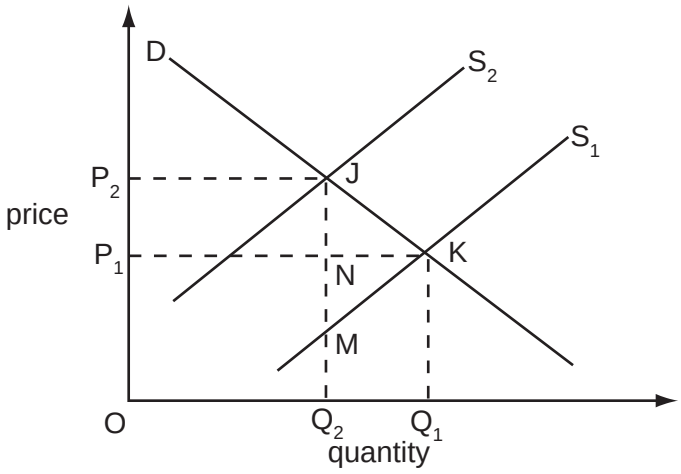
14 A perfectly competitive industry becomes a profit maximising monopoly.

The marginal cost curve of the monopolist is identical to the supply curve of the perfectly competitive industry.

How will output and price be affected?

	output	price
A	increases	increases
B	increases	decreases
C	decreases	decreases
D	decreases	increases

15 In the diagram the imposition of a tax on a commodity causes its supply curve to shift from S_1 to S_2.



Which area measures the resulting deadweight loss?

A P_1P_2JK **B** JKQ_1Q_2 **C** JKM **D** JKN

[Turn over

16 In what circumstances will the entry of additional fishing boats into the fishing industry necessarily result in a net loss in welfare?

A The entry of the new boats reduces fish caught by other boats.

B The entry of the new boats reduces the profits of other boat owners.

C The value of the increase in the fish caught is less than the loss in value of output elsewhere in the economy.

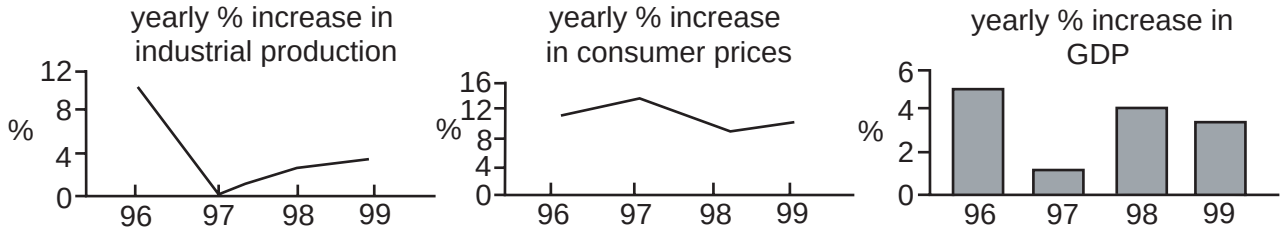
D The entry of the new boats reduces the overall fish stock.

17 The government of a centrally planned economy decides to replace central planning with a market system.

What does the experience of the former Communist states suggest is likely to happen in the early stages of the transition process to national output and to the inflation rate?

	national output	inflation rate
A	decrease	decrease
B	decrease	increase
C	increase	increase
D	increase	decrease

18 The graphs indicate economic performance in a country between 1996 and 1999.



Which conclusion may be drawn from the graphs?

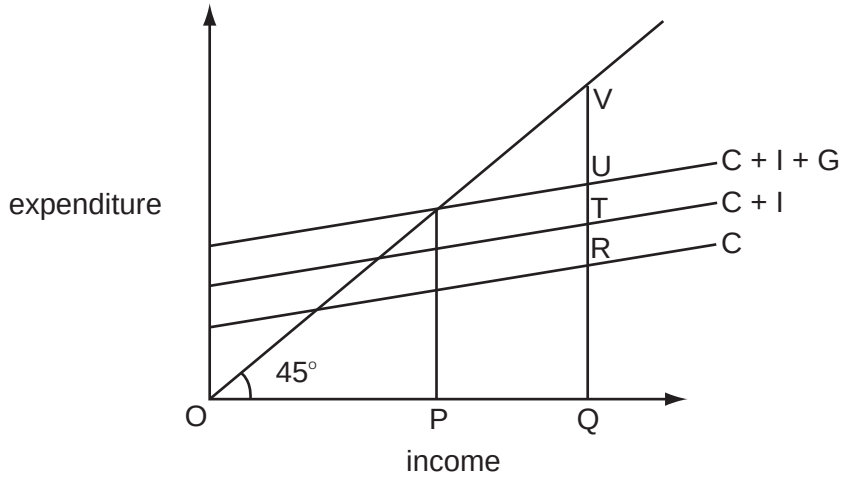
A Between 1996 and 1997 industrial production and GDP fell but prices rose.

B Between 1997 and 1998 the rates of growth of industrial production, GDP and prices all increased.

C GDP and industrial production were at their lowest in 1997.

D At no time did industrial production, GDP or prices fall.

19 In the diagram, OP is the equilibrium level of income and OQ the full employment level of income in a closed economy.



What is the deflationary gap?

A RV **B** TV **C** UV **D** PQ

20 Which statement is consistent with a Keynesian view of the workings of the macroeconomy?

A Recessions can result from fluctuations in private investment expenditure.

B Interest rates move to ensure continuous equality between savings and investment plans.

C Money wages in the economy in the short run are perfectly flexible.

D Changes in aggregate demand cannot occur without equivalent changes in the money supply.

21 According to the accelerator theory

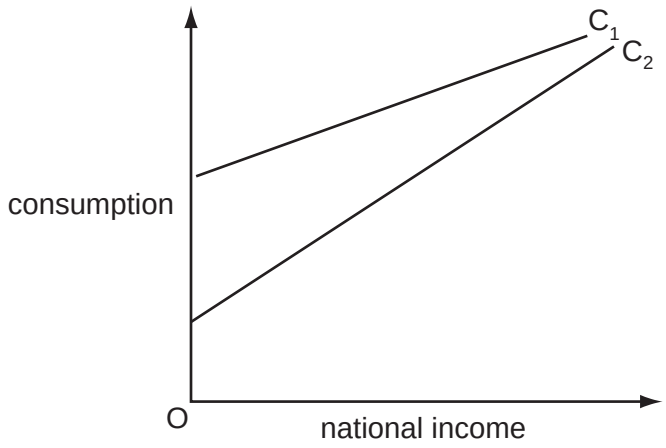
A net investment is positive if output is rising at an increasing rate.

B net investment may rise even if output rises at a declining rate.

C increases in investment occur when interest rates are falling.

D increases in investment will cause a more than proportionate increase in national income.

22 In the diagram, C_1 shows the initial relationship between consumption and national income.



What could cause the consumption function to shift to C_2?

A an increase in exports

B an increase in investment

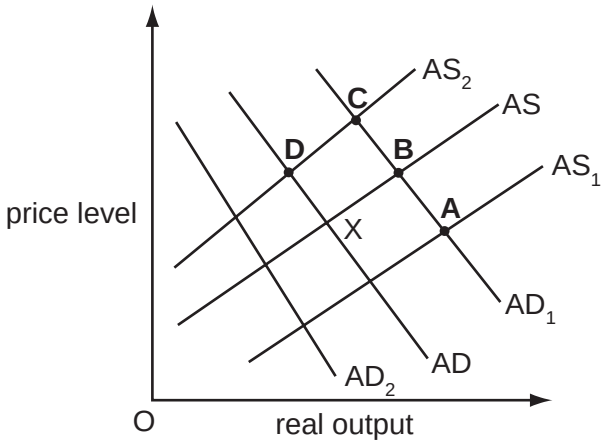
C a decrease in the rate of unemployment benefits

D a decrease in the standard rate of income tax

23 In the diagram an economy is initially in equilibrium at point X.

The government increases spending on education. This coincides with an increase in wage rate inflation.

Which point shows the most likely new equilibrium of the economy?



24 Assuming a constant income velocity of circulation of money, if real output grows by 3 %, and the rate of growth of the money supply is 10 %, what will be the approximate change in the price level?

A – 7 % **B** + 7 % **C** + 10 % **D** + 13 %

25 Which of the following is most likely to be found in a developing economy?

A a low capital : labour ratio

B a high capital : labour ratio

C a high capital : output ratio

D a low labour : output ratio

26 A government uses monetary policy in an attempt to keep actual unemployment continuously below the 'natural' rate of unemployment.

What is likely to be a consequence of this policy?

A a high but constant rate of inflation

B a low but constant rate of inflation

C a decelerating rate of inflation

D an accelerating rate of inflation

27 Workers in poor countries are often less productive than workers using the same technology in rich countries.

What would be most likely to remedy this situation?

A an increase in the saving ratio in poor countries

B increased investment in education in poor countries

C increased freedom of migration from poor countries to rich countries

D the removal of trade barriers imposed by rich countries on imports from poor countries

28 Real output in an economy grows by 1.5 % but at the same time the level of unemployment increases.

What can be deduced from this information?

A Labour productivity has decreased.

B Actual output has grown more slowly than potential output.

C Population of working age has fallen.

D There has been an increase in the rate of inflation.

29 If the unemployment that exists in a country is judged to be mainly cyclical, which is the most effective policy the government could implement?

A cut welfare spending on benefits

B improve information about job vacancies

C reduce tax rates

D raise interest rates

30 Which policy is likely to reduce a balance of payments deficit without causing inflation?

A a reduction in government spending

B a devaluation of the exchange rate

C an increase in import tariffs

D an increase in indirect taxes

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