www.XtremePapers.com

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Advanced Level

ECONOMICS **9708/03**

Paper 3 Multiple Choice (Extension)

May/June 2004

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.

This document consists of **10** printed pages and **2** blank pages.

© UCLES 2004

1 What does **not** pose a threat to the achievement of allocative efficiency?

A imperfect information on the part of consumers

B income inequalities

C the existence of externalities

D the presence of monopolistic elements

2 What is **not** held constant when calculating the income effect of a change in the price of a good?

A the consumer's money income

B the consumer's preferences

C the consumer's real income

D the prices of other goods

3 A firm is operating in an imperfectly competitive market.

Why does the marginal revenue product of a factor of production employed by the firm fall as more of the factor is employed?

A Its marginal physical product alone falls.

B Its marginal revenue alone falls.

C Its marginal physical product and its marginal revenue both fall.

D The supply price of the factor rises.

4 To increase its labour force from 50 to 51 workers, a firm has to increase the daily wage rate from \$600 to \$610.

What is the marginal cost of labour per day?

A \$10 **B** \$510 **C** \$610 **D** \$1110

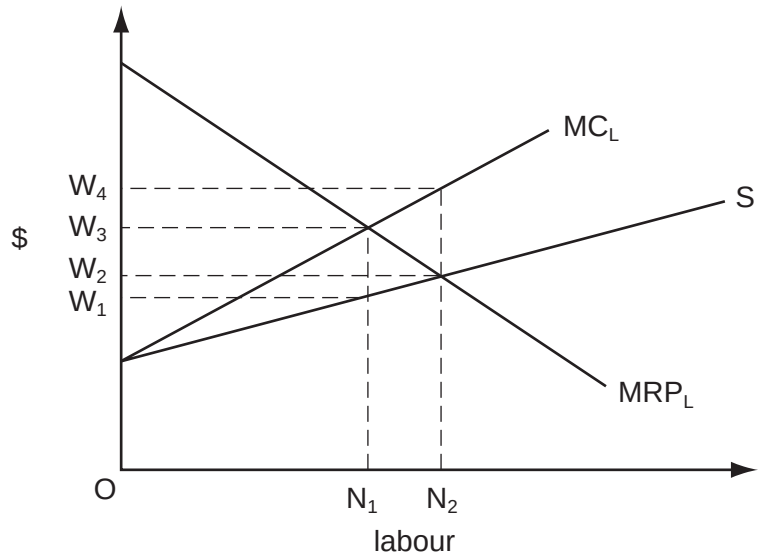
5 There is an increase in the supply of female labour.

What will be the likely effect on male and female wages?

	male wages	female wages
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

© UCLES 2004

6 In the diagram, MRP_L is a firm's marginal revenue product of labour curve, S is its supply of labour curve, and MC_L its marginal cost of labour curve.



Assuming profit maximisation, how many workers will the firm employ and what wage will it pay?

	number employed	wage
A	N_1	W_3
B	N_1	W_1
C	N_2	W_2
D	N_2	W_4

7 An industry consists of a large number of firms, all of which produce an identical product.

What could explain why the demand curve facing each individual firm is downward-sloping?

A diminishing marginal utility

B freedom of exit and entry

C imperfect knowledge on the part of consumers

D a limit on the amount consumers have available to spend

8 A firm operates in a contestable market.

Which statement correctly describes the firm's conduct?

A It will set a price to maximise profits in the short run.

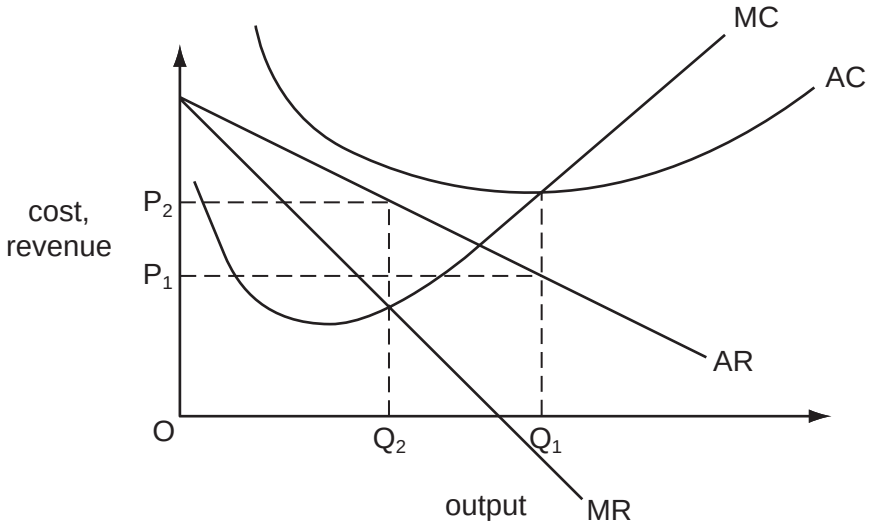
B It will set a price to maximise its revenue.

C It will set a price to deter the entry of new firms.

D It will produce at minimum average cost.

© UCLES 2004

9 The diagram shows the cost and revenue curves of a monopolist.



The monopolist is currently producing output OQ_1 and charging a price OP_1.

How might the monopolist make a profit?

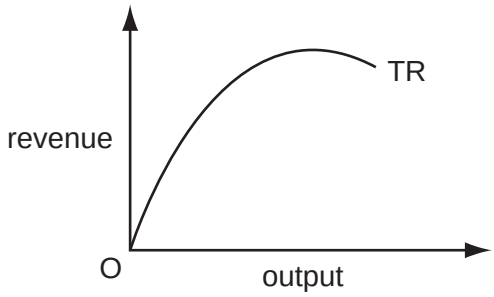
A by adopting marginal cost pricing

B by maximising sales revenue

C by practising price discrimination

D by reducing output to OQ_2 and charging price OP_2

10 The diagram shows a firm's total revenue curve.



At the curve's highest point

A marginal revenue is equal to marginal cost.

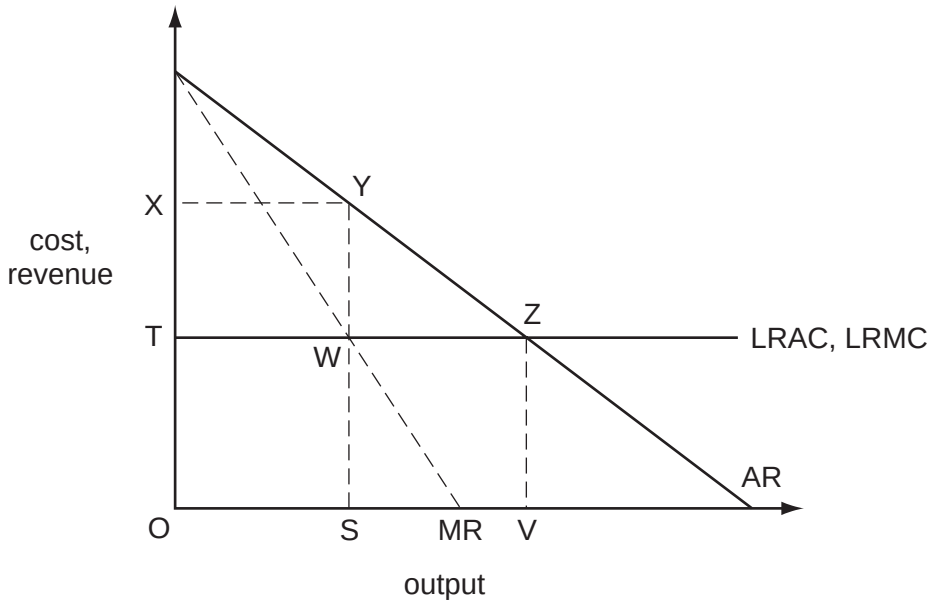
B average revenue is equal to average cost.

C marginal revenue is equal to average revenue.

D marginal revenue is zero.

© UCLES 2004

11 The diagram shows an industry producing under conditions of constant average costs.



Under perfect competition, the industry produces output OV.

Which area measures the increase in the industry's profits if it were to become a monopoly?

A XYSO **B** XYWT **C** XYZT **D** YZW

12 A perfectly competitive firm is producing 2000 boxes of biscuits per week, which it sells for $2.50 per box. The table shows the firm's costs.

total fixed cost	$2000
total variable cost	$4000
marginal cost	$2.50

In the short run, what should the firm do to maximise its profits or minimise its losses?

A cease production altogether

B increase its output

C lower its price

D maintain its output at the present level

© UCLES 2004

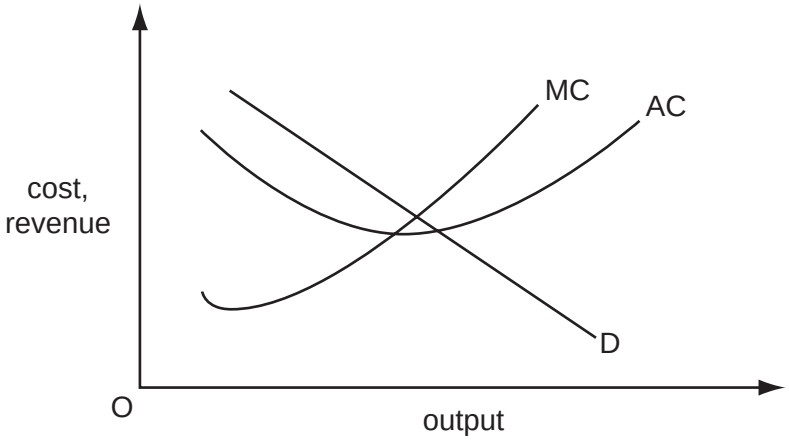
13 A firm employs three factors of production. The table shows the marginal products of these factors and their respective costs at the current level of output.

	land	labour	capital
marginal product (units)	1	2	9
marginal cost per unit of factor ($)	4	6	3

Which adjustment in factor use would be most likely to bring the firm nearer to the least-cost combination of inputs for its current output level?

	land	labour	capital
A	less	no change	more
B	less	no change	no change
C	more	less	no change
D	more	less	more

14 The diagram shows the demand and cost curves of a monopolist who initially produces at his profit-maximising level of output.

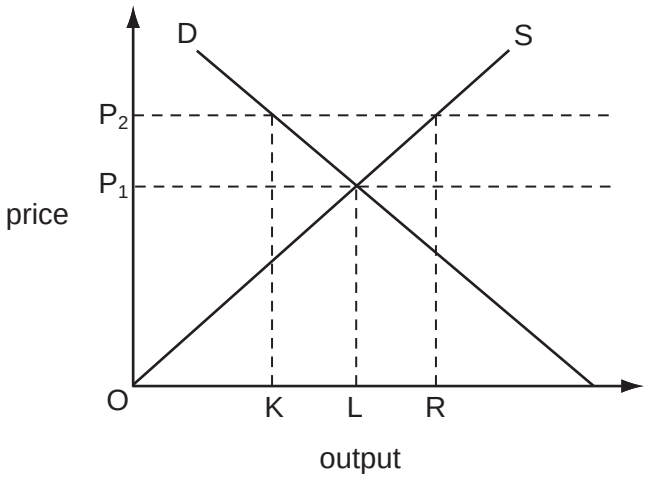


If the monopolist were required by the government to adopt marginal cost pricing, what would be the effect on the price charged and the output produced?

	price	output
A	increase	increase
B	increase	decrease
C	decrease	increase
D	decrease	decrease

© UCLES 2004

15 The diagram shows the market supply and demand curves for corn.



What should a government do if it is to maintain a minimum price of OP_2?

A buy quantity KR

B buy quantity LR

C sell quantity KL

D sell quantity OL

16 A country's national income per head falls, but there is a rise in consumption.

What could explain this?

A a decrease in the net property income from abroad

B a fall in population

C an increase in the trade deficit

D a rise in negative externalities

17 In a closed economy with no government sector the multiplier shows the impact of a change in

A consumption on investment.

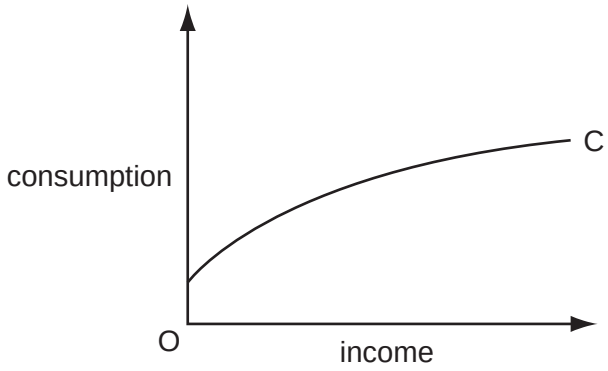
B investment on national income.

C national income on consumption.

D national income on investment.

© UCLES 2004

18 The diagram shows an economy's consumption function.



What might explain why the consumption function shifts over time?

A Autonomous consumption is greater than zero.

B Income is only one of several variables that affect consumption.

C The average propensity to consume falls as income increases.

D The marginal propensity to consume falls as income increases.

19 In an economy, the marginal propensity to consume of the unemployed is higher than that of taxpayers.

The government increases both expenditure on unemployment benefits and taxation by $10 million.

What will be the impact on aggregate demand?

A It will be unchanged.

B It will increase by less than $10 million.

C It will increase by $10 million.

D It will decrease by $10 million.

20 A closed economy is initially in equilibrium with a national income of $100 million, and a capital stock of $25 million. Aggregate demand increases by $10 million.

According to the accelerator principle, by how much will net investment increase?

A $10 m **B** $5 m **C** $2.5 m **D** $2 m

21 What will cause interest rates to rise?

A an unexpected increase in the prices of bonds

B an increase in the nominal money supply

C an increase in the volume of output

D a reduction in the price level

© UCLES 2004

22 According to monetarist theory, what will be the short-run effect of an unexpected increase in the money supply?

A an appreciation of the foreign exchange rate

B an increase in employment

C an increase in real wages

D an increase in the rate of interest

23 What is likely to cause a decrease in aggregate supply?

A a decrease in consumption expenditure

B an increase in labour productivity

C a decrease in rates of unemployment benefit

D an increase in wage costs per unit of output

24 A closed economy has a banking system consisting of a single bank. The bank operates with a cash ratio of 10 %.

Customers deposit $10 000 in cash.

Assuming no subsequent change in notes and coins in circulation what is the maximum amount of loans that the bank can create?

A $1000 **B** $9000 **C** $90 000 **D** $100 000

25 Between 2000 and 2002 national output in the United States increased by 2 %.

Over the same period the unemployment rate increased from 4 % to 6 %.

What would explain this?

A There was a decrease in labour productivity.

B There was a decrease in the size of the labour force.

C There was a fall in the rate of inflation.

D Potential growth in national output was above actual growth.

© UCLES 2004

26 The natural rate of unemployment in an economy is 5%.

What will happen if a government persists in trying to achieve a target rate of unemployment of 3% by expansionary monetary policy?

A an accelerating rate of inflation

B a diminishing rate of inflation

C a high but constant rate of inflation

D a negative rate of inflation

27 Which policy is most likely to result in a decrease in the natural rate of unemployment?

A a reduction in interest rates

B an increase in government expenditure on goods and services

C an increase in trade union membership

D a decrease in the level of government payments to the unemployed

28 The monetary authorities increase interest rates in order to control inflation.

What is likely to increase as a result of this?

A firms' sales revenue

B investment expenditure

C net capital outflows

D the exchange rate

29 What is most likely to be increased by a policy of increased direct taxes and lower government spending?

A the balance of payments deficit

B the budget deficit

C the rate of inflation

D the level of unemployment

30 What would represent a monetarist anti-inflationary policy?

A an increase in indirect taxation

B direct foreign exchange rate intervention

C the introduction of maximum prices

D the sale of securities on the open market

© UCLES 2004

BLANK PAGE

BLANK PAGE

University of Cambridge International Examinations is part of the University of Cambridge Local Examinations Syndicate (UCLES), which is itself a department of the University of Cambridge.