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UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Advanced Level

ECONOMICS **9708/03**

Paper 3 Multiple Choice (Supplement)

May/June 2006

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.

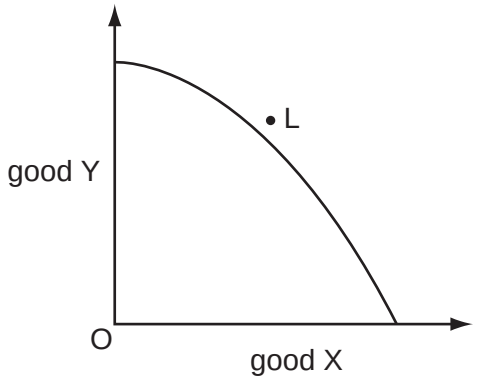
Read the instructions on the Answer Sheet very carefully.

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 **11** printed pages and **1** blank page.

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1 The diagram shows the production possibility curve for an economy.



What might make it possible for consumers in this economy to consume the combination of goods X and Y indicated by the point L?

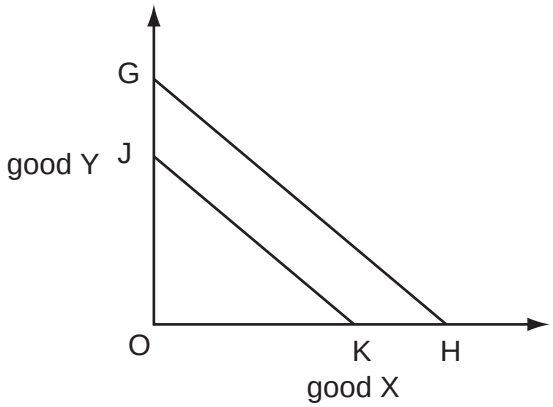
A a reduction in unemployment

B the attainment of productive efficiency

C the elimination of a monopoly in the production of good X

D trade with other economies

2 In the diagram a consumer's budget line shifts from JK to GH.



What can definitely be deduced from the diagram?

A There has been an increase in the consumer's money income.

B There has been a reduction in the price of both X and Y.

C There has been no change in the price of X or Y.

D There has been no change in the price of X relative to the price of Y.

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3 'The addition to revenue which results from employing one additional unit of a factor of production, the quantities of all other factors of production remaining constant'.

What does this define?

A marginal factor cost

B marginal revenue

C marginal revenue product

D the law of diminishing returns

4 In which situation is it likely that the demand for labour would be inelastic?

A Labour and capital are close substitutes.

B Labour costs are only a small proportion of total costs.

C Demand for the final product that the labour produces is elastic.

D A large quantity of unemployed labour is available in the economy.

5 The table shows the main characteristics of employment in two occupations.

	occupation A	occupation B
average annual wage	$100 000	$60 000
number of weeks annual leave	5 weeks	10 weeks
average length of working week	48 hours	44 hours
job security	low	high
length of training course to obtain job qualification	1 year	2 years

What can be deduced from the table?

A Those employed in occupation B attach greater importance to job security.

B Those employed in occupation A attach less importance to leisure activities.

C There will be more competition for places on training courses to enter occupation A than occupation B.

D Occupation B has greater non-pecuniary advantages than occupation A.

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6 As firm **X** grows in size, it specialises in a narrower range of products.

Which economies of scale will the firm be **less** able to benefit from?

A financial

B marketing

C risk-bearing

D technical

7 What is included in an economist's definition of costs but **not** an accountant's?

A advertising expenditure

B depreciation

C insurance

D normal profit

8 Samsung Electronics, which began as a semiconductor firm making simple memory chips, has used continuous research and investment to emerge as an industry leader.

In addition, it has applied its strength in semiconductors to other markets including televisions and mobile phones.

What has taken place?

A external growth and diversification

B external growth and sales revenue maximisation

C internal growth and diversification

D internal growth and sales revenue maximisation

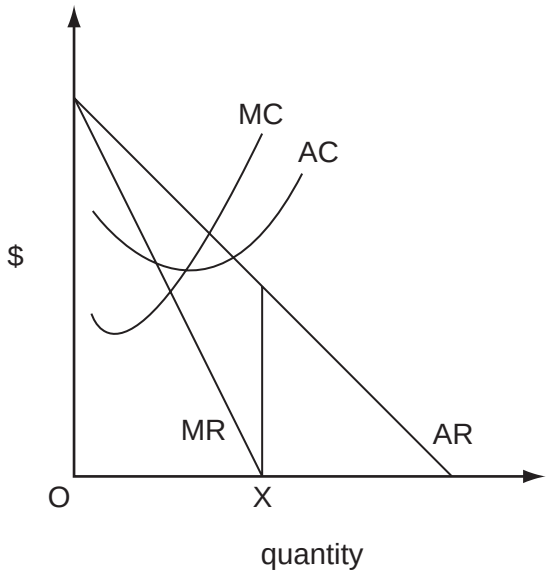
9 A firm in perfect competition currently sells 100 units at $5 each.

What will be the revenue obtained by the firm if it increases its price to $6?

A zero **B** $100 **C** $500 **D** $600

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10 The diagram shows the cost and revenue curves of a monopoly.



What is the firm's objective if it produces output OX?

A to achieve normal profit

B to maximise profit

C to maximise total revenue

D to minimise average cost

11 A firm charges the maximum price it is able to charge without attracting competition from new entrants.

In which type of market does this firm operate?

A a contestable market

B a monopolistically competitive market

C a monopsonistic market

D a perfectly competitive market

12 An example of forward vertical integration for a computer manufacturer would be a merger with

A another computer manufacturer.

B a computer retailer.

C a silicon chip manufacturer.

D a software developer.

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13 What will increase the likelihood that the firms in an industry will collude to maximise their joint profits?

A The industry has many differentiated products.

B The industry is characterised by rapid technological change.

C The industry consists of a large number of producers.

D There are significant barriers to prevent new firms entering the industry.

14 The maximum price that a privatised natural monopoly is allowed to charge its customers is determined by the following formula:

the price charged in the previous year plus the annual % change in the consumer price index minus 2 %.

Assuming the firm charges the maximum price allowed, how will an increase in productive efficiency affect customers and the company's shareholders?

	customers	shareholders
A	gain	gain
B	gain	no effect
C	no effect	gain
D	no effect	no effect

15 The introduction of a minimum hourly wage for all workers over 21 years of age is expected to increase the average wages of these workers.

What will be the likely effect on workers **under** 21?

	unemployment for under 21s	average wages for under 21s
A	falls	fall
B	rises	fall
C	falls	rise
D	rises	rise

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16 The table gives data for an economy.

	2000	2001	2002	2003	2004
Gross Domestic Product (GDP) at current prices ($ billion)	200	220	240	300	320
GDP deflator	100	109	118	149	154

In which year did real GDP decline compared with the previous year?

A 2001 **B** 2002 **C** 2003 **D** 2004

17 Which of the following are injections into the circular flow of income?

	trade surplus	government budget deficit	private sector surplus (saving – investment)
A	✓	✓	✗
B	✓	✗	✗
C	✗	✓	✓
D	✗	✗	✓

18 What is a central assertion of 'Monetarist' economics?

A Fiscal policy should be used for the continuous management of the economy.

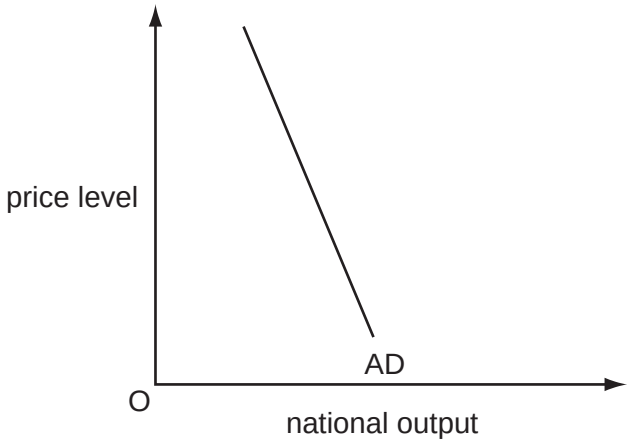
B Major recessions can occur despite an unchanged money supply.

C The money supply dominates the determination of aggregate monetary expenditure.

D The velocity of circulation of money is unstable over time.

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19 The diagram shows an aggregate demand curve.



What helps to explain why the curve is downward sloping?

A When exports increase there will be an increase in national income.

B When investment increases there will be an increase in consumption.

C When the price level increases there will be an increase in interest rates.

D When government expenditure increases there will be an increase in national output.

20 A closed economy with no government has an equilibrium level of national income of $10 000 million. Consumption expenditure is $8000 million.

Assuming that the MPC = APC what will be the change in national income following an increase in investment of $100 million?

A $100 m **B** $120 m **C** $400 m **D** $500 m

21 What does the accelerator principle state?

A Consumption is a function of the rate of change of income.

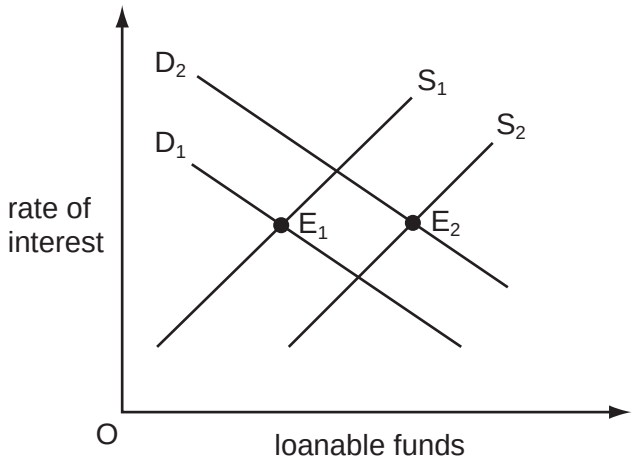
B Income is a function of the rate of change of investment.

C Investment is a function of the rate of change of income.

D Investment is a function of the rate of interest.

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22 The diagram shows the demand curves and supply curves of loanable funds.



Which changes could cause the equilibrium in the market for loanable funds to move from E_1 to E_2?

A an increase in the money supply combined with a decrease in the propensity to save

B a decrease in bank lending combined with an increase in the productivity of capital

C an increase in bank lending combined with an increase in business confidence

D a decrease in the money supply combined with an increase in the propensity to save

23 What is most likely to cause the public to hold less cash in relation to the level of money income?

A a fall in interest rates

B a fall in the level of output

C a greater availability of cash substitutes

D a rise in the general price level

24 Which change would best indicate that a country has experienced economic development?

A an improvement in the average citizen's quality of life

B an increase in the country's real GDP

C an improvement in the country's trade balance

D an appreciation in the country's currency

25 What is likely to increase a country's actual output in the short run but may reduce its long-run rate of growth of potential output?

A an increase in the size of the labour force

B increased government spending on education

C an increase in the size of the government's budget deficit

D increased female participation in the labour force

26 What is most likely to lead in the long run to an increase in world real GDP per head?

A faster population growth

B trade liberalisation

C a lower propensity to save

D faster growth of the money supply

27 Which type of unemployment is associated with a deficiency in aggregate demand?

A cyclical

B frictional

C structural

D voluntary

28 Which combination indicates that a country has a freely floating exchange rate?

	nominal exchange rate	foreign currency reserves
A	depreciates by 20 %	decrease by $1 billion
B	depreciates by 20 %	unchanged
C	unchanged	decrease by $1 billion
D	unchanged	unchanged

29 A government decides to pursue a more deflationary fiscal policy and a more reflationary monetary policy.

Which combination of changes in policy instruments is consistent with this?

	government expenditure	interest rate	taxation
A	decrease	decrease	increase
B	decrease	decrease	decrease
C	increase	increase	decrease
D	increase	increase	increase

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30 What is likely to be the effect of an oil price increase on the global economy?

A a strengthening of demand inflation

B a weakening of cost inflation

C a decrease in the rate of growth

D a decrease in unemployment

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