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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 2007**

1 hour

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

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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 **12** printed pages.

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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 conditions for allocative efficiency have been met.

B The conditions for productive efficiency have been met.

C The distribution of income is socially acceptable.

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

2 A consumer seeks to maximise their utility. Up to what point should they continue to consume each good?

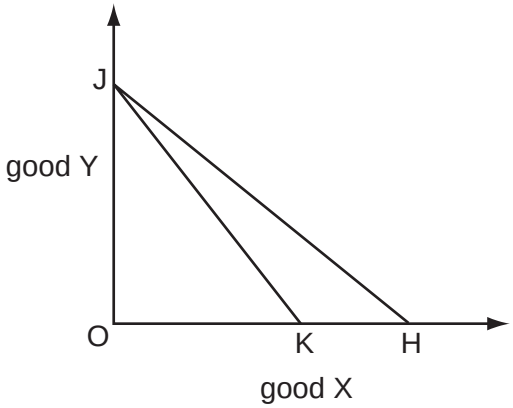
A until the marginal utility from each good is the same

B until the marginal utility per dollar from each good is the same

C until the marginal utility from each good reaches a maximum

D until the marginal utility from each good is zero

3 In the diagram a consumer's budget line shifts from JK to JH.



What can definitely be concluded from the diagram?

A There has been no change in the price of good Y.

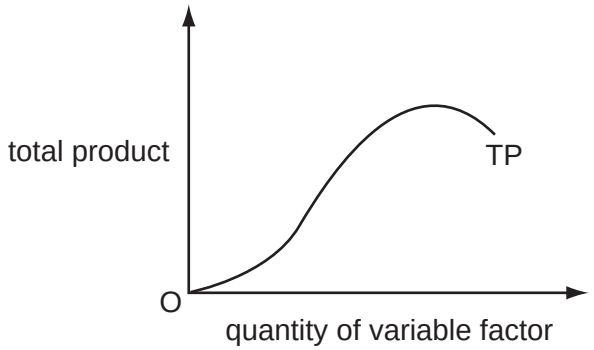
B There has been a reduction in the price of good X.

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

D There has been an increase in the consumer's real income.

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4 The diagram shows the total product curve for a single variable factor, assuming all other factor inputs are held constant.



In which order do the total product (TP), average product (AP) and marginal product (MP) begin to decrease as the input of the variable factor is increased?

	first	second	third
A	AP	MP	TP
B	AP	TP	MP
C	MP	AP	TP
D	MP	TP	AP

5 For a firm in imperfect competition, the marginal revenue product of labour at any given level of employment is equal to

A marginal revenue divided by the number employed.

B marginal revenue divided by the wage rate.

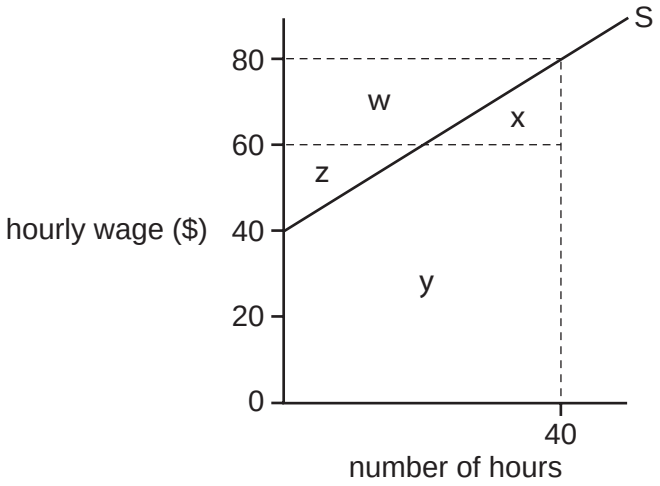
C the marginal physical product of labour multiplied by marginal revenue.

D the marginal physical product of labour multiplied by the wage rate.

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[Turn over

6 The diagram shows an individual's supply of labour curve.

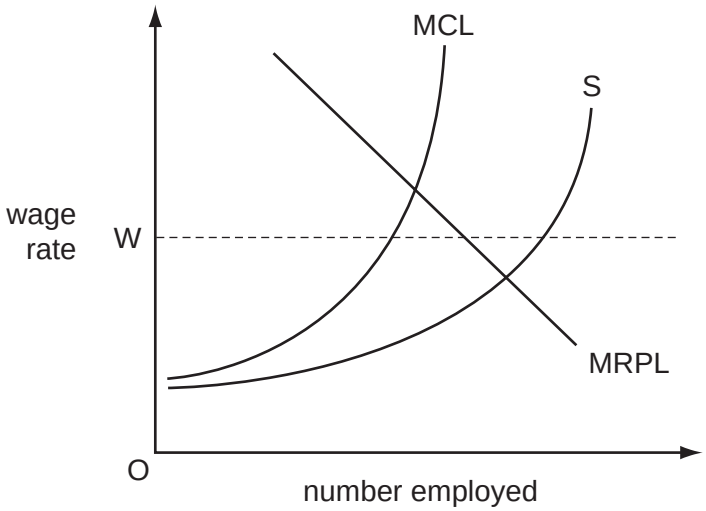


He is offered a job which would require him to work a standard 40-hour week.

Which area measures the lowest amount he would have to be paid per week to get him to accept this job offer?

A w + z **B** x + y **C** x + y - z **D** w + x + z + y

7 In the diagram, S is a monopsonist's supply of labour curve, MCL its marginal cost of labour curve and MRPL its marginal revenue product of labour curve.



The firm's workers join a trade union which negotiates a wage rate, OW, with the firm's owners.

What will be the effect on the firm's total wage bill and on the number of workers employed?

	total wage bill	number employed
A	increase	increase
B	increase	decrease
C	decrease	decrease
D	decrease	increase

8 Which of the following is a financial economy of scale?

A lower risk due to diversification

B lower costs in raising capital

C lower costs of marketing

D lower variable costs of production

9 The short-run total costs of a firm are given by the formula

$SRTC = \$(10\,000 + 5X^2)$

where X is the level of output.

What are the firm's average fixed costs?

A \$10 000

B $\frac{\$(10\,000 + 5X^2)}{X}$

C $\frac{\$10\,000}{X}$

D $\frac{\$(5X^2 - 10\,000)}{X}$

10 The table shows data for an owner-managed firm for a particular year.

	\$
total revenue	250 000
raw material costs	30 000
wages and salaries	110 000
salary that the owner could have earned elsewhere	40 000
interest paid on bank loan	30 000
interest forgone on owner's capital	50 000

What is the firm's profit according to an economist?

A –\$10 000 **B** \$40 000 **C** \$80 000 **D** \$100 000

11 How might a firm benefit from external economies?

A by increasing its expenditure on advertising

B by increasing its scale of production

C by locating in an area in which the industry is already established

D by merging with another domestic firm engaged in the same industry

12 A firm earns supernormal profit when its profit is

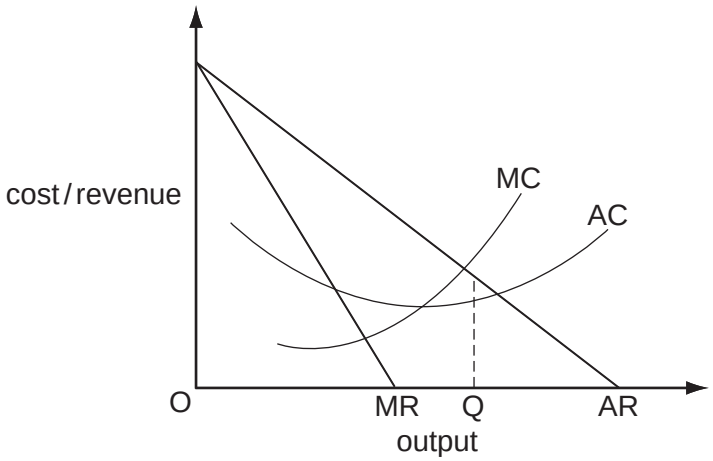
A above that earned by competing firms.

B above that needed to cover its fixed costs.

C above that needed to keep the firm in production in the short run.

D above that required to keep its resources in their present use in the long run.

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



What could explain why the firm produces output OQ?

A Its aim is to maximise profits.

B Its aim is to maximise sales revenue.

C It is operating in a contestable market.

D It is operating in a perfectly competitive market.

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14 An industry consists of a dominant producer and a number of smaller producers.

The dominant producer joins with some of the other producers to form a cartel with a view to maximising their joint profits.

Who will derive the greatest short-run benefit from this arrangement?

A the industry's suppliers

B the dominant firm

C smaller producers within the cartel

D the producers who do not join the cartel

15 A perfectly competitive industry becomes a monopoly.

What would prevent a deadweight welfare loss resulting?

A The government converts it to a profit-maximising nationalised industry.

B The government places an indirect tax on the monopolist's product.

C The monopolist uses marginal cost pricing.

D The monopolist charges the same price to all consumers.

16 Which combination of fiscal policy measures would be most effective in reducing income inequality?

	top rates of income tax	indirect taxes	value of state benefits
A	increase	increase	increase
B	reduce	increase	reduce
C	increase	reduce	increase
D	reduce	reduce	reduce

17 In 1995 the Canadian government increased the specific tax on each packet of cigarettes by $3.50.

What is the most likely explanation for the resulting fall in tax revenue from cigarette sales?

A Consumers switched to cheaper brands.

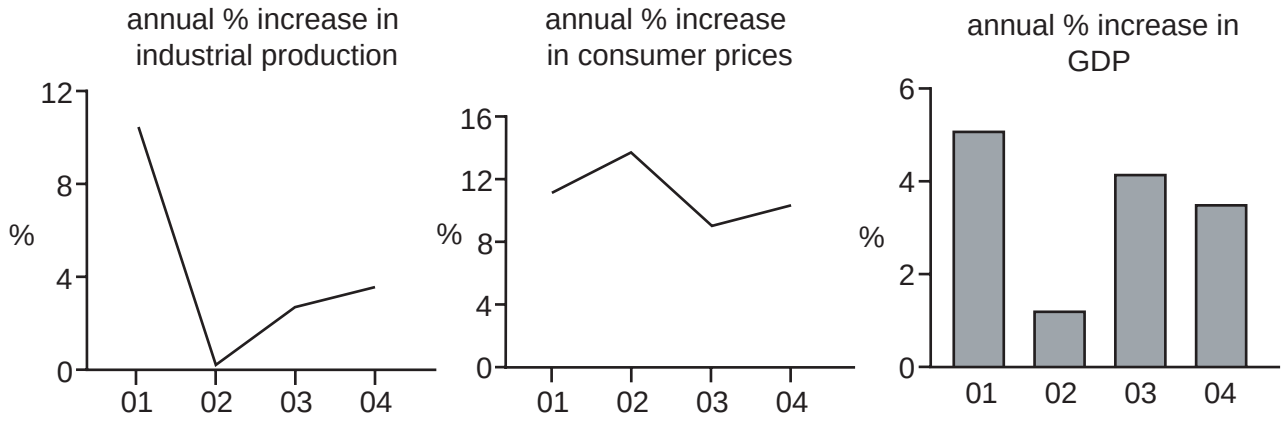
B The demand for cigarettes is price-inelastic.

C There was an increase in illegal imports of cigarettes from the USA.

D The whole of the increase in tax was borne by the cigarette manufacturers.

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18 The graphs indicate economic performance in a country between 2001 and 2004.



Which conclusion may be drawn from the graphs?

A Between 2001 and 2002 industrial production and GDP fell but prices rose.

B Between 2002 and 2003 the rates of growth of industrial production, GDP and prices all increased.

C GDP and industrial production were at their lowest in 2002.

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

19 Why might GNP per capita of different countries in a given year, measured in US dollars, be a poor indicator of their comparative standards of living?

A Their exchange rates are different from purchasing power parities.

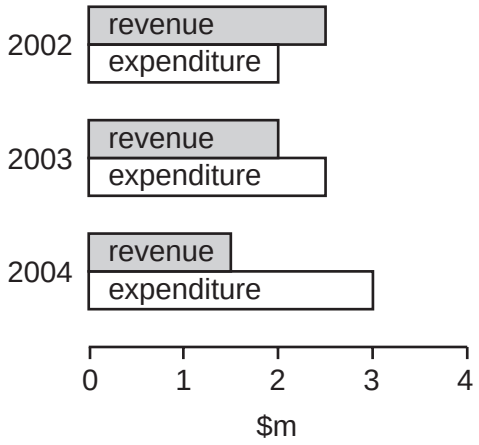
B Their population growth rates are different.

C Their rates of inflation are different.

D Their ratios of imports to national income are different.

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20 The diagram shows a government's revenue and expenditure for three years.



What can be concluded from the diagram?

A A budget deficit was replaced by a budget surplus.

B A government net borrowing requirement emerged.

C The economy moved from a recession into a boom period.

D The yield from taxation continuously increased.

21 Which assertion could be described as monetarist rather than Keynesian?

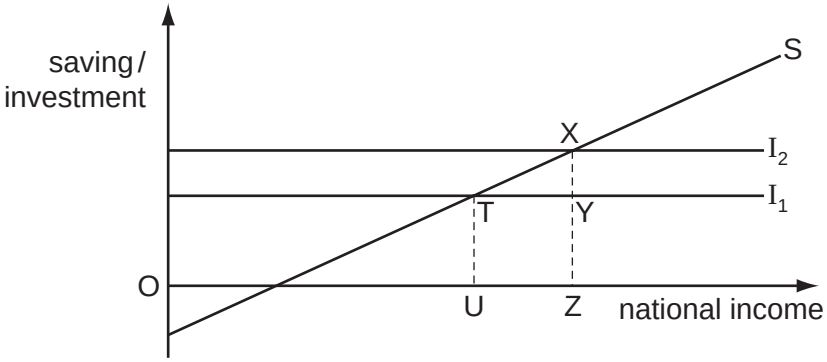
A Central banks must directly control interest rates to influence the money supply.

B The interest elasticity of investment expenditure is close to zero.

C The money supply is the main determinant of aggregate monetary expenditure.

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

22 The diagram shows the equilibrium levels of national income in a closed economy with no government, at two levels of investment, I_1 and I_2.



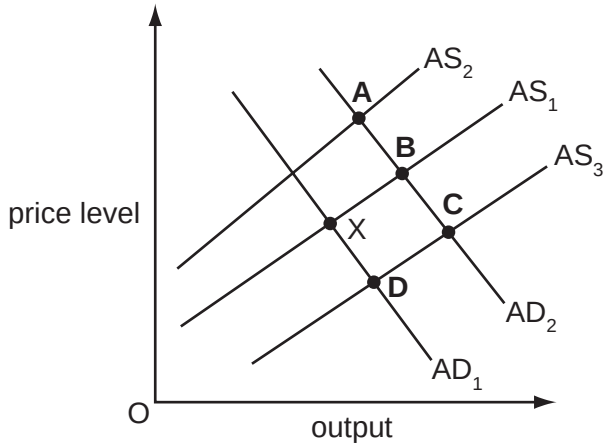
Which ratio gives the value of the multiplier?

A $\frac{TX}{UZ}$ **B** $\frac{UZ}{TX}$ **C** $\frac{UZ}{XY}$ **D** $\frac{XY}{UZ}$

23 An economy is currently in equilibrium at point X.

Government expenditure is increased on retraining programmes for those out of work. This raises the productivity of the trainees.

Which point shows the new equilibrium in the economy?



24 What is likely to happen to interest rates and aggregate demand when a central bank sells government securities?

	interest rates	aggregate demand
A	fall	fall
B	fall	rise
C	rise	fall
D	rise	rise

25 What will be most likely to decrease a country's national output in the short run but to increase its potential for long-run growth?

A a decrease in the level of import tariffs

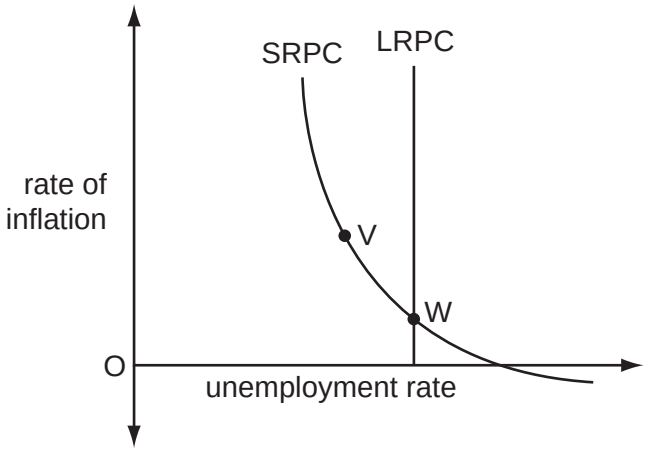
B a decrease in the rate of immigration

C an increase in female participation in the labour force

D an increase in the money supply

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26 In the diagram SRPC is an economy's short-run Phillips curve and LRPC is its long-run Phillips curve.



The economy is initially at point W.

An increase in monetary growth moves the economy to point V.

Why is it that the economy **cannot** stay at point V?

	rate of inflation at point V	unemployment rate at point V
A	above the expected rate	above the natural rate
B	above the expected rate	below the natural rate
C	below the expected rate	above the natural rate
D	below the expected rate	below the natural rate

27 What is most likely to lead to an increase in the natural rate of unemployment?

A more rapid technological change

B a widening in inter-regional wage differentials

C a narrowing in inter-regional house price differentials

D a decrease in the number of workers who are members of trade unions

28 What is likely to be the effect on developing economies of an increase in inward foreign direct investment?

A an increase in the burden of debt

B a slowdown of rural-urban migration

C an increase in visible trade deficits

D an acceleration of technology transfers

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29 Legal reforms to reduce the power of trade unions have in many countries reduced inflationary pressures.

Of which policy is this an example?

A monetary policy

B demand side policy

C fiscal policy

D supply side policy

30 Which combination of policy measures is most likely to reduce unemployment?

A lowering both the exchange rate and domestic interest rates

B lowering the exchange rate and increasing direct taxation

C raising both the exchange rate and domestic interest rates

D raising both the exchange rate and direct taxation

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