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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 2008**

1 hour

Additional Materials: Multiple Choice Answer Sheet
Soft clean eraser
Soft pencil (type B or HB is 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 What will happen if a firm is subsidised by an amount equal to the external benefits that it confers on the rest of society?

A Resource allocation will be improved.

B The firm will produce less.

C There will be a misallocation of resources.

D There will be no effect upon production.

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

quantity of good (units)	total utility (units)
1	24
2	45
3	63
4	78
5	90
6	99

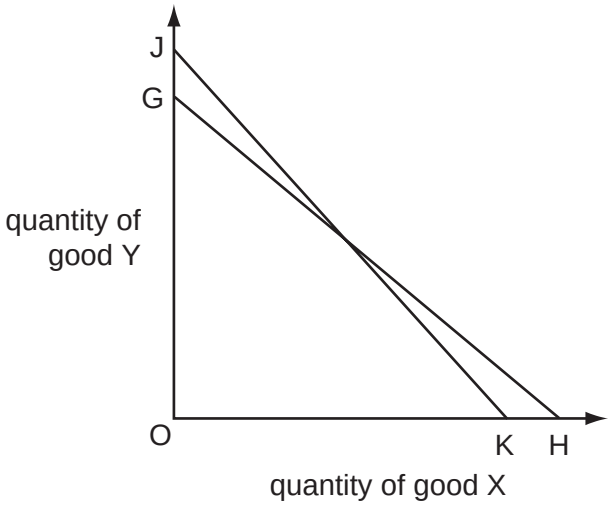
The individual's marginal utility of money is $1 = 2 units of utility.

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

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3 In the diagram a consumer's initial budget line is JK.



Assuming no change in the price of Y, what could explain a shift in the consumer's budget line to GH?

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

4 The table shows the current position of a firm in a perfectly competitive industry.

	factor **X**	factor **Y**
marginal physical product	2	8
factor price	$5.00	$10.00

If the firm sells its product for $1 and aims to maximise profits, what should it employ?

A more of both **X** and **Y**

B more of **X** and less of **Y**

C more of **Y** and less of **X**

D less of both **X** and **Y**

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5 The government imposes a maximum earnings limit on recording artists.

What must result in the short run if the measure is effective?

A a decrease in the economic rent earned by recording artists

B a decrease in the transfer earnings of recording artists

C a decrease in the supply of recording artists

D a decrease in the profits of record companies

6 What is the name for the relationship between a firm's output and the quantities of factor inputs that it employs?

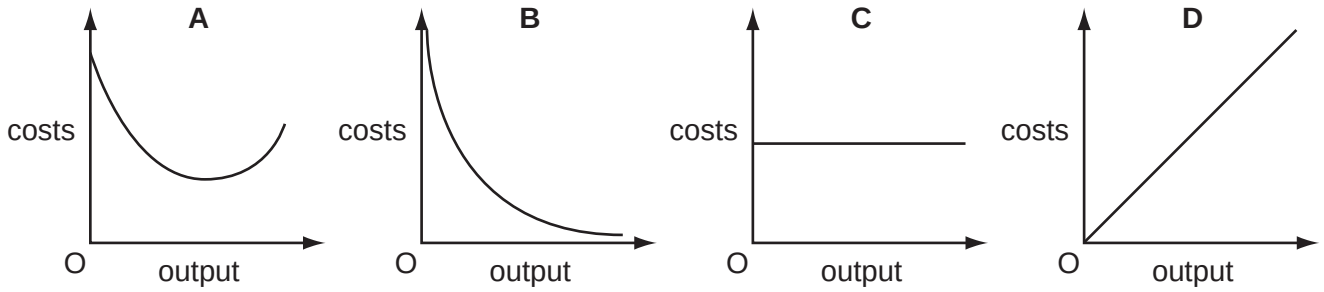
A a long-run production function

B a long-run average cost function

C productive efficiency

D returns to scale

7 Which diagram shows a firm's total fixed cost curve?



8 What explains why both large and small firms are often found within the same industry?

A There are significant barriers to the entry of new firms into the industry.

B Firms that assemble the final product buy component parts from other specialist firms.

C Production is subject to diseconomies of scale.

D All firms in the industry produce identical products.

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9 The table shows some of the assumptions of perfect competition and monopolistic competition.

Which pairing is correct?

	perfect competition	monopolistic competition
A	barriers to entry	small number of firms
B	differentiated products	large number of firms
C	freedom of entry and exit	differentiated products
D	large number of firms	barriers to entry

10 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

11 Why might a firm introduce a policy of price discrimination?

A to achieve allocative efficiency

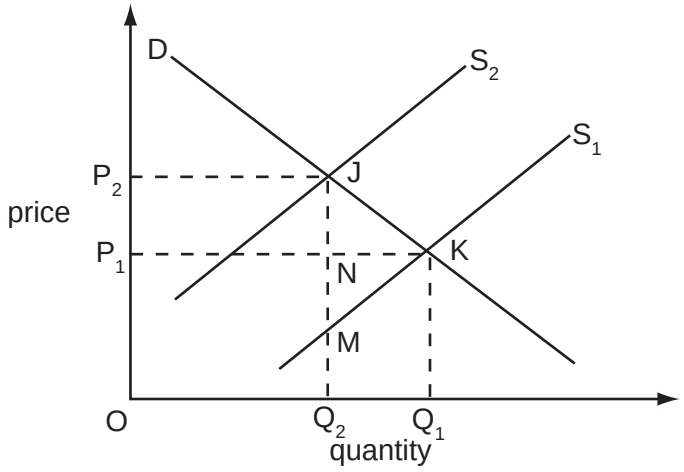
B to achieve productive efficiency

C to avoid diseconomies of scale

D to turn consumer surplus into producer surplus

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12 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

13 A good gives rise to external costs and is produced under conditions of monopolistic competition.

Which statement must be true?

A Output of the good is at the socially optimum level.

B Output of the good is below the socially optimum level.

C Private costs of production exceed social costs.

D Social costs of production exceed private costs.

14 The government of a country decides to increase the proportion of its tax revenue that it obtains from income tax and to reduce the proportion it obtains from indirect taxes. Total tax revenue is left unchanged.

What is likely to be the impact on the distribution of income and on work incentives?

	distribution of income	work incentives
A	more equal	increase
B	more equal	decrease
C	less equal	increase
D	less equal	decrease

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15 A government decides to privatise a state monopoly.

What should the government do to try to ensure that this will result in an improvement in efficiency?

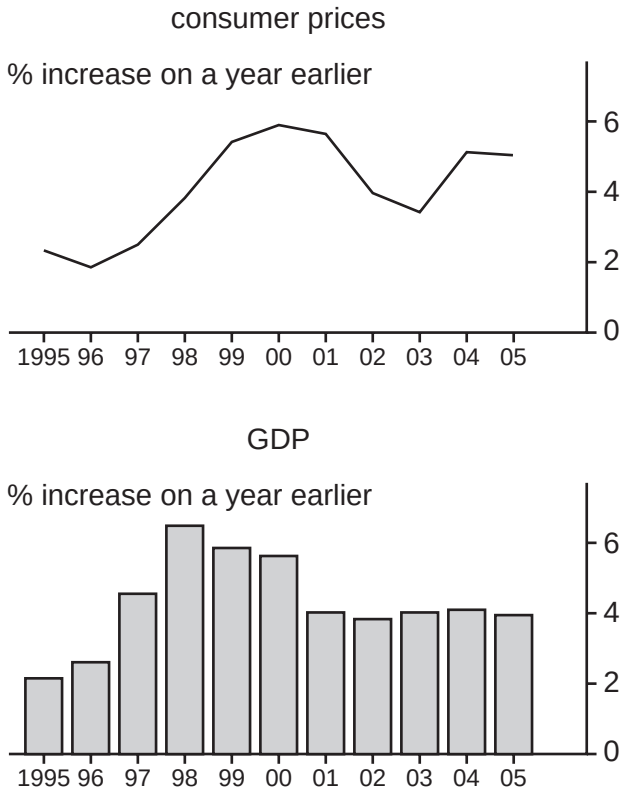
A allocate vouchers to all citizens entitling them to a share in the ownership of the monopoly

B encourage competition

C impose a maximum profit margin

D privatise the monopoly as a going concern

16 The graphs show how consumer prices and real GDP changed in a country between 1995 and 2005.



Which conclusion may be drawn from the graphs?

A Living standards remained roughly constant between 1995 and 2005.

B The country experienced continuous economic growth between 1995 and 2005.

C The level of GDP was lower in 2005 than in 2000.

D The price level fell between 2000 and 2003.

17 During a year, a country's national income in money terms increased by 8 %, prices increased by 4 % and total population increased by 2 %.

What was the approximate change in real income per head?

A a decrease of 2 %

B nil

C an increase of 2 %

D an increase of 4 %

18 The table shows data on a country's gross domestic product at market prices and on domestic spending.

	year 1 ($m)	year 2 ($m)	year 3 ($m)
GDP at market prices	630	650	680
private consumption	480	470	480
government consumption	160	160	150
gross investment	20	30	40

In which of these years will the country be faced with a balance of trade deficit?

	year 1	year 2	year 3
A	no	no	yes
B	yes	yes	no
C	no	yes	yes
D	yes	no	no

19 An economy is operating initially at its natural rate of unemployment.

According to monetarist theory, what will be the effect on unemployment in the short run and in the long run of an unanticipated increase in the money supply?

	short run	long run
A	no change	no change
B	no change	reduction
C	reduction	no change
D	reduction	reduction

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20 In a closed economy, the full employment level of income is \$200 million.

$$C = \tfrac{3}{4} Y,$$

$$I = \$(50 - 5r) \text{ million},$$

where C = consumption,

Y = income,

I = investment,

r = the rate of interest.

If planned government expenditure is \$30 million, what rate of interest would be required for there to be full employment?

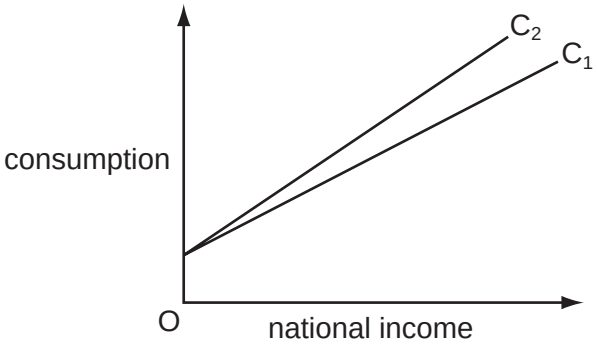
A 2 % per annum

B 4 % per annum

C 6 % per annum

D 8 % per annum

21 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?

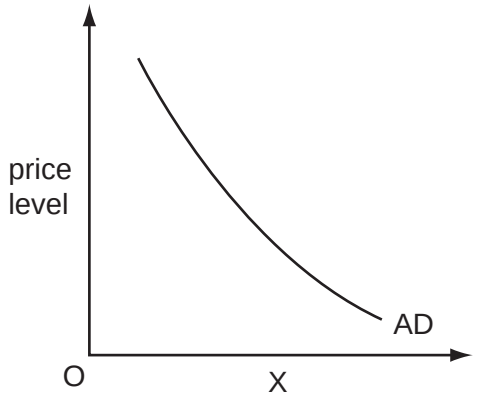
A an increase in exports

B an increase in investment

C a decrease in the rate of unemployment benefits

D a decrease in the standard rate of income tax

22 The diagram shows an aggregate demand curve (AD).



What is measured on the horizontal (X) axis?

A money national output

B nominal national income

C real disposable income

D real GDP

23 In a banking system, all banks maintain 20 % of deposits as cash.

One bank receives a new cash deposit of $200. Subsequent net withdrawals of cash from the banking system are zero.

What will be the resulting increase in bank loans and the total increase in bank deposits?

	increase in bank loans	total increase in deposits
A	$160	$200
B	$160	$360
C	$800	$1000
D	$1000	$1000

24 What is likely to result in an increase in GDP **per worker** in a developing economy?

A an increase in the employment rate

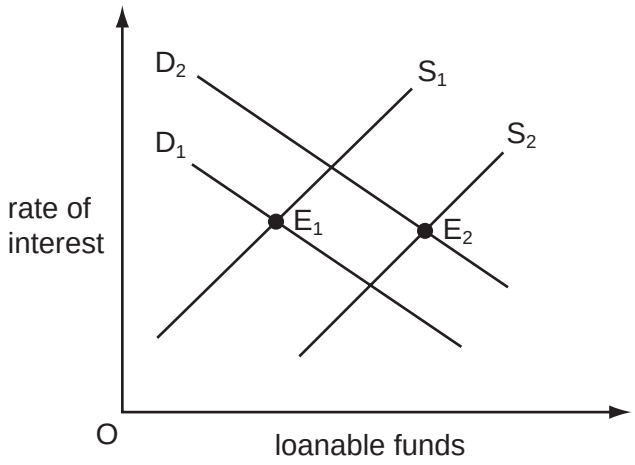
B an increase in the population of working age

C a shift from working in subsistence agriculture to working in manufacturing

D a shift from working in manufacturing to working in subsistence agriculture

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25 The diagram shows the market for loanable funds.



Which changes could cause the equilibrium to move from E_1 to E_2?

A an increase in the propensity to save and an increase in bank lending

B the discovery of oil reserves and an increase in the propensity to save

C advances in technology and a decrease in bank lending

D a decrease in the propensity to save and the introduction of new products

26 The table shows the figures for consumption, capital formation and depreciation in four economies, all measured in US $.

Assuming that the state of technology remains unchanged, which economy is most likely to experience economic growth?

	consumption ($ m)	capital formation ($ m)	depreciation ($ m)
A	100	20	10
B	500	200	200
C	1 000	1 200	1 400
D	20 000	5 000	6 000

27 The number of people employed in a country and the level of unemployment both increase.

What could make this possible?

A net inward immigration

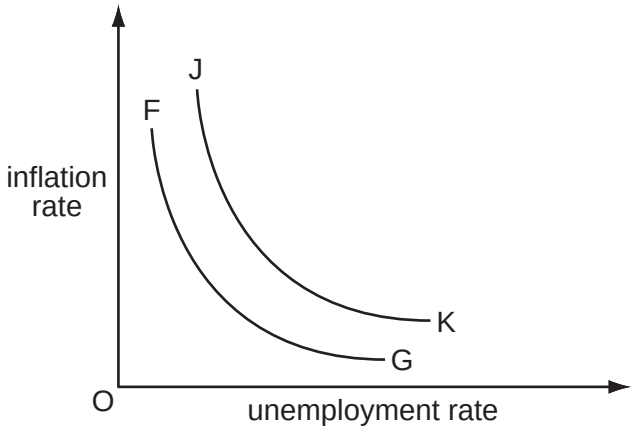
B a decrease in the level of unemployment benefits

C a decrease in the age at which state pensions are payable

D an increase in the number of students

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28 The diagram shows the relationship between the rate of inflation and the rate of unemployment.



What would cause the curve FG to shift to JK?

A a decrease in government expenditure

B a fall in the level of employment

C an increase in the rate of change of wages

D the expectation of an increase in inflation

29 Other things being equal, what is likely to result from an increase in interest rates in a country?

A a capital outflow from the country

B a depreciation of the country's currency

C a decrease in consumption

D an increase in investment

30 Why might a reduction in domestic interest rates improve the current account of a country's balance of payments?

A It will cause an appreciation in the exchange rate.

B It will reduce the amount of interest paid to foreign holders of the country's financial assets.

C The resulting higher level of economic activity is likely to increase imports.

D There will be an outflow of capital from the country.

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