www.XtremePapers.com

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Advanced Level

ECONOMICS **9708/03**

Paper 3 Multiple Choice (Supplement) **May/June 2009**

1 hour

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

0273803258

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.

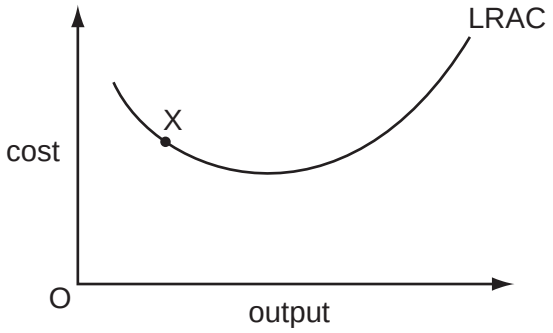
There are **thirty** questions on this paper. Answer **all** questions. For each question there are four possible answers **A**, **B**, **C** and **D**.
Choose the **one** you consider correct and record your choice in **soft pencil** on the separate Answer Sheet.

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.

IB09 06_9708_03/4RP
© UCLES 2009

1 In the diagram, the firm is operating at point X on its long-run average cost curve.



Which statement about the firm is correct?

A It is operating at its optimal level of output.

B It is operating below its cost-minimising level of output.

C It is productively inefficient.

D It could produce its current level of output at a lower cost.

2 The table shows the marginal utility derived by a consumer who devotes the whole of his weekly income of $42 to two goods X and Y, whose unit prices are $3 and $6 respectively.

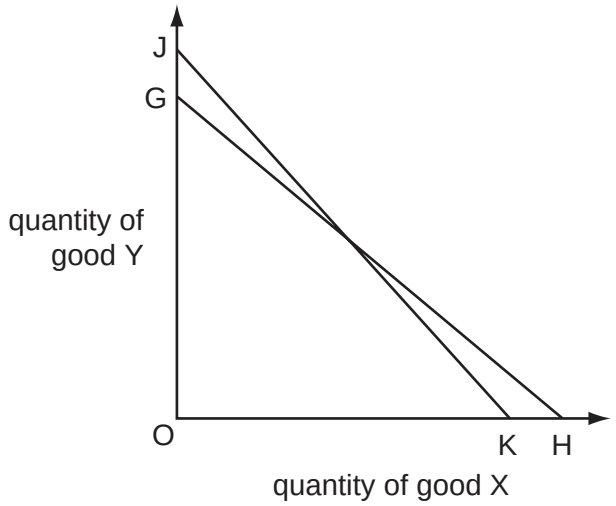
unit	marginal utility of X (units)	marginal utility of Y (units)
1	12	34
2	11	30
3	10	26
4	9	22
5	8	18
6	7	14
7	6	10
8	5	6

In order to maximise his utility, which quantities of X and Y should the consumer purchase?

	X	Y
A	2	6
B	4	5
C	6	4
D	8	3

© UCLES 2009

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



Which statement **must** be correct?

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

B There has been a decrease in the consumer's real income.

C Good Y has become relatively more expensive.

D The price of good X has increased.

4 To increase its labour force from 100 to 101 workers, a firm has to increase its daily wage rate from $400 to $405.

What is the marginal cost of labour per day?

A $5 **B** $405 **C** $905 **D** $40 905

5 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

By how much does total cost as defined by an economist exceed the total cost as defined by an accountant?

A $15 000 **B** $40 000 **C** $55 000 **D** $85 000

© UCLES 2009

6 A manufacturing firm has one plant of optimum size.

The firm builds a second plant identical to its first plant. The firm then finds that its long-run average cost has risen.

What could account for the change in its long-run average cost?

A diminishing returns

B external diseconomies of scale

C managerial diseconomies of scale

D technical diseconomies of scale

7 A firm estimates that, all else remaining unchanged, an increase in its output will result in an equal proportionate increase in its **revenue**.

What can be deduced from this about the price elasticity of demand for the firm's product?

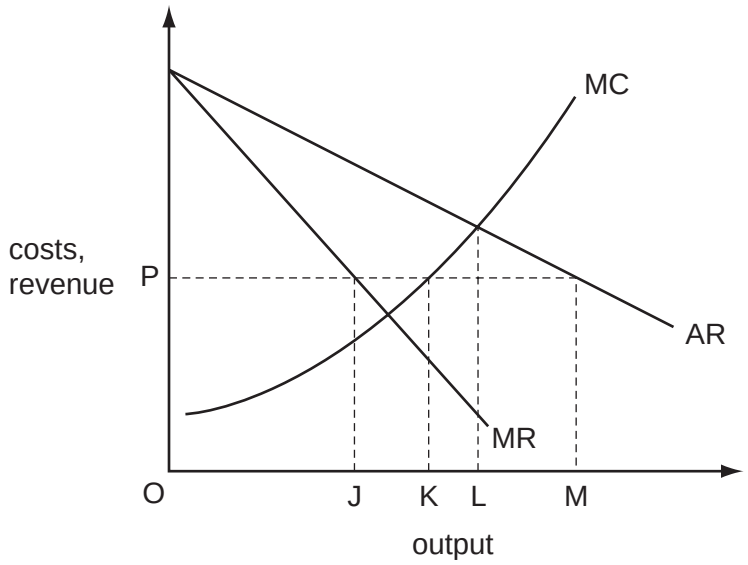
A It is –1.

B It is +1.

C It is perfectly inelastic.

D It is perfectly elastic.

8 The diagram shows the initial cost and revenue curves of a profit-maximising monopolist.



What output will the firm produce if the government fixes the price at OP?

A OJ **B** OK **C** OL **D** OM

9 What is a feature of monopolistic competition, but **not** of perfect competition?

A a small number of buyers

B product differentiation

C the existence of abnormal profits

D the existence of barriers to entry

10 Which assumption is essential for a market to be contestable?

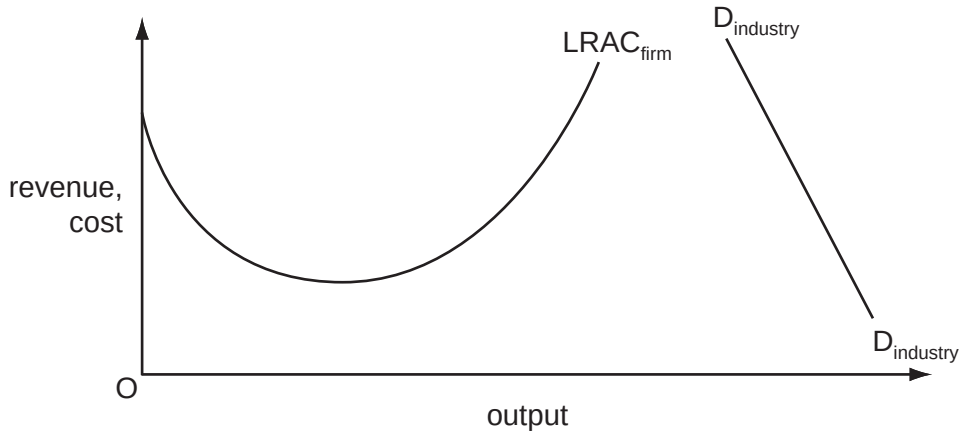
A The market is supplied by a large number of firms.

B Firms are free to enter and leave the market.

C Firms cannot earn abnormal profits in the short run.

D Firms produce differentiated goods.

11 The diagram shows the long-run average cost curve of a typical firm in an industry and the demand curve for the industry's product.



Which market structure is most likely to occur in this industry?

A monopolistic competition

B monopoly

C oligopoly

D perfect competition

12 In which circumstance will a firm cease production in the short run?

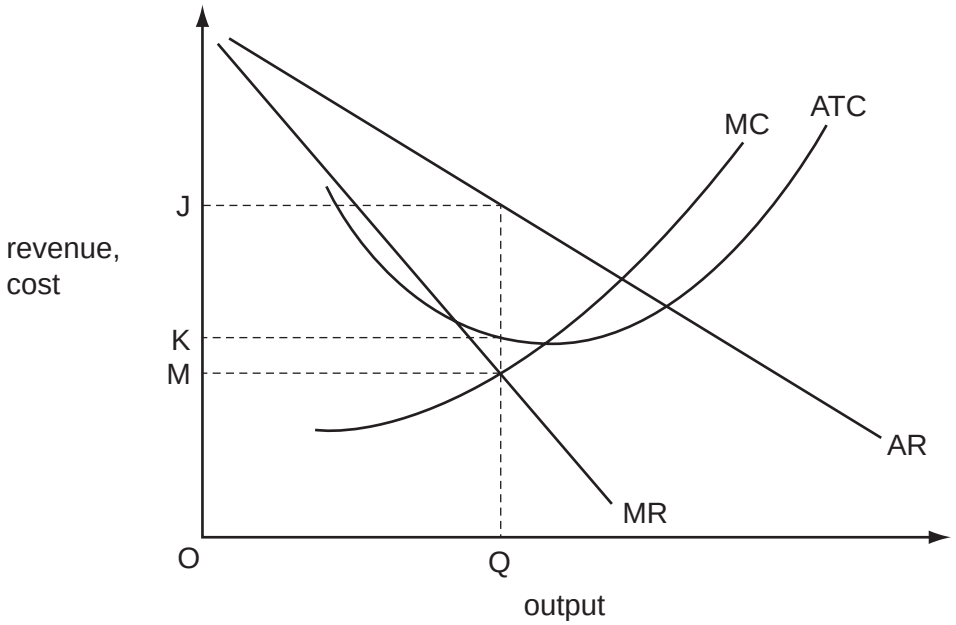
A It makes a profit that is less than its total variable costs.

B It makes a profit that is less than its total fixed costs.

C Its average revenue is less than its average cost.

D Its average revenue is less than its average variable cost.

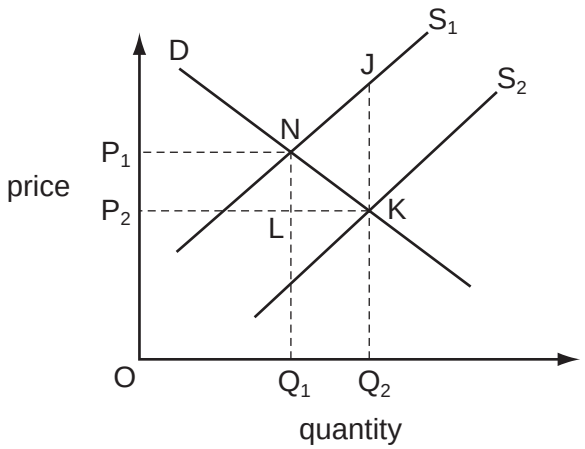
13 The diagram shows the cost and revenue curves of a profit-maximising monopolist.



What measures the monopoly profit per unit of output made by the firm?

A JM **B** JK **C** JM × OQ **D** JK × OQ

14 In the diagram the introduction of a government subsidy causes an industry's supply curve to shift from S_1 to S_2.



Which area measures the resulting deadweight loss to society?

A P_1NKP_2 **B** JKN **C** NLK **D** Q_1Q_2JN

© UCLES 2009

15 A country's national income per head increases.

What could explain why this is accompanied by a fall in households' standard of living?

A an increase in personal taxes

B an increase in the trade deficit

C an increase in population

D a rise in the exchange rate

16 Which of the following correctly identifies net leakages from the circular flow of income?

	trade surplus (exports - imports)	government budget deficit (government spending - taxes)	private sector surplus (saving - investment)
A	✓	✓	✗
B	✓	✗	✗
C	✗	✓	✓
D	✗	✗	✓

17 According to monetarist theory, which policy objectives are in conflict in the short run, but not in the long run?

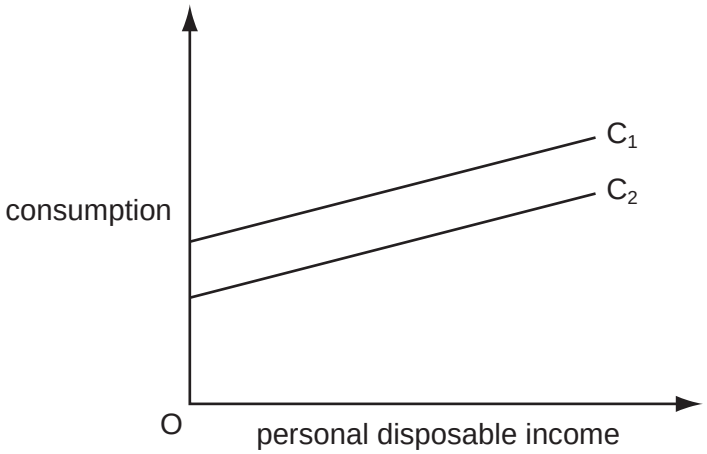
A economic growth and full employment

B economic growth and price stability

C price stability and full employment

D price stability and equilibrium in the balance of payments

18 A country's initial consumption function is C_1.



What would be most likely to cause the consumption function to shift from C_1 to C_2?

A a decrease in personal disposable income

B a decrease in the expected future rates of income tax

C an increase in interest rates

D an increase in wealth

19 In a closed economy with no government C = 30 + 0.7Y, where C is consumption and Y is income.

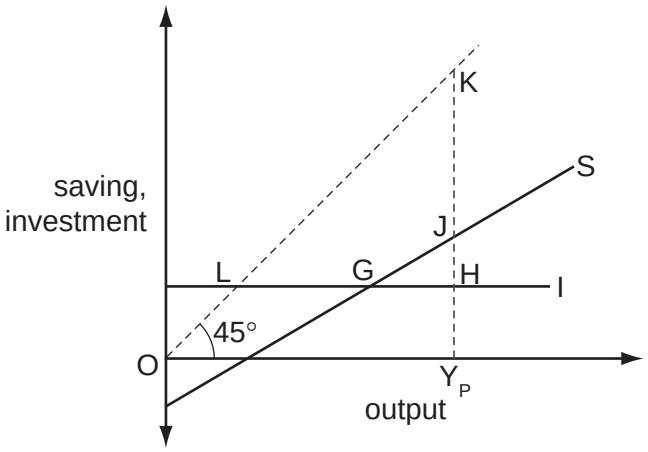
The equilibrium level of income is 300.

What is the level of investment?

A 60 **B** 100 **C** 210 **D** 270

© UCLES 2009

20 The diagram shows the saving and investment curves of a closed economy with no government.

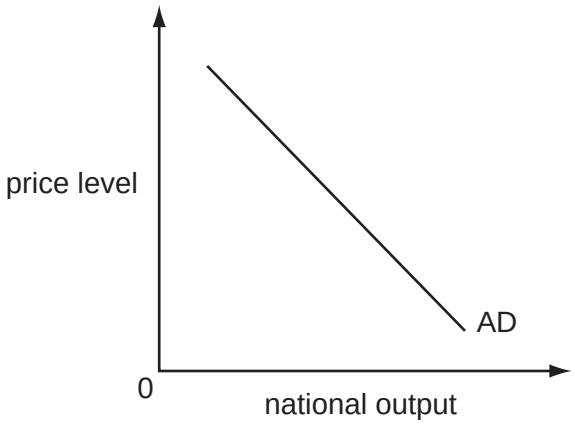


The potential level of output is OY_P.

Which distance measures the gap between actual and potential output?

A LG **B** GH **C** JH **D** KJ

21 The diagram shows a country's aggregate demand curve.



What could explain why the curve slopes downwards?

A A fall in the price level increases the real value of money balances.

B A fall in the price level leads to an increase in interest rates.

C A fall in the price level leads to a rise in the real exchange rate.

D A fall in the price level leads to the expectation of a further decrease in the price level.

22 According to Keynesian theory, in which circumstance would there always be an increase in the demand for money?

	real income	price level	interest rates
A	increase	decrease	increase
B	constant	constant	increase
C	increase	increase	decrease
D	constant	decrease	decrease

23 How is outward migration from a developing economy likely to affect its balance of payments?

A It may improve its balance of payments by increasing its export capacity.

B It may improve its balance of payments by increasing inflows of current transfers.

C It may worsen its balance of payments by causing a currency depreciation.

D It may worsen its balance of payments by increasing consumer expenditure on imported goods.

24 The table shows the figures for consumption, gross 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?

economy	consumption ($ m)	gross capital formation ($ m)	depreciation ($ m)
A	200	40	50
B	500	200	150
C	1 000	1 200	1 400
D	20 000	6 000	6 000

25 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

© UCLES 2009

26 Which combination of factors is **most** likely to result in more rapid economic growth?

A increases in employment and in the balance of payments deficit

B increases in the level of investment and in the size of the working population

C more equal distribution of wealth and a higher level of unemployment benefits

D more rapid inflation and an increase in the national debt

27 How might a developing economy gain from a multilateral reduction in import tariffs and the removal by developed economies of subsidies on food exports?

A through increased specialisation leading to higher productivity

B through increased ability to protect infant industries

C through a reduction in the cost to the economy of imported food

D through increased tariff revenues

28 An economy with a floating exchange rate is in recession and at the same time has a deficit on the current account of its balance of payments.

Which policy combination would be most likely to help with both of these problems?

	interest rates	tax rates
A	decrease	unchanged
B	decrease	increase
C	increase	unchanged
D	increase	increase

29 In 2004 China's ability to exploit its comparative advantage in cotton production increased.

What could explain this change?

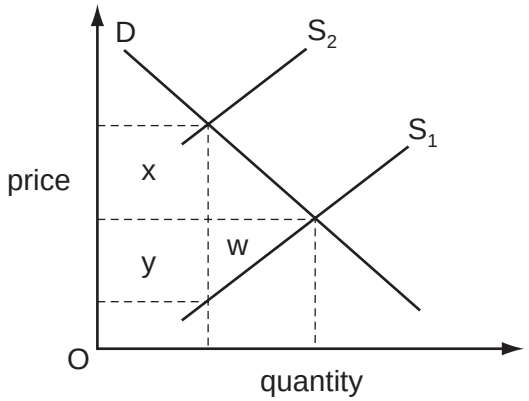
A a fall in the value of the currency of India, a major cotton producer

B a reduction of the import quota on Chinese cotton into the European Union

C a rise in the wages of Brazilian cotton workers matched by an increase in their productivity

D the removal of the United States of America's subsidy to its cotton growers

30 In the diagram D is the demand curve for Indian tea exports and S_1 is the initial supply curve.



The Indian government imposes a tax on tea exports, which causes the supply curve to shift to S_2.

Which areas in the diagram measure the resulting gain in tax revenue to the Indian government and the resulting loss in producer surplus to its tea producers?

	gain in tax revenue	loss in producer surplus
A	x	w + y
B	x + y	y
C	x	y
D	x + y	w + y

Permission to reproduce items where third-party owned material protected by copyright is included has been sought and cleared where possible. Every reasonable effort has been made by the publisher (UCLES) to trace copyright holders, but if any items requiring clearance have unwittingly been included, the publisher will be pleased to make amends at the earliest possible opportunity.

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

© UCLES 2009