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UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Level

ECONOMICS **9708/31**

Paper 3 Multiple Choice (Supplement) **May/June 2012**

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.

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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.

IB12 06_9708_31/FP
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1 Which condition must be met for economic efficiency to be achieved?

A Marginal social costs are zero in the production of all goods.

B Marginal social costs are at a minimum in the production of all goods.

C Marginal social benefits are at a maximum in the production of all goods.

D Marginal social costs equal marginal social benefits in the production of all goods.

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

quantity of good (units)	total utility (units)
1	20
2	36
3	50
4	62
5	72
6	80

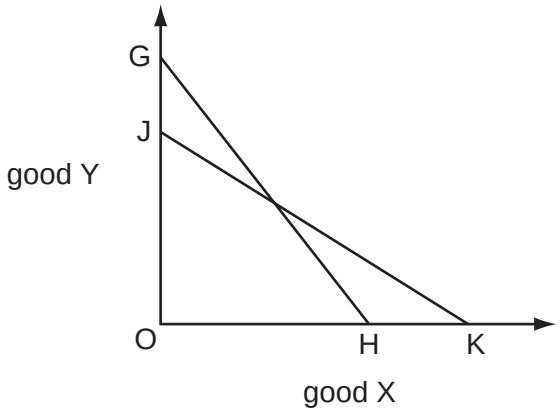
The individual's marginal utility of money is $1 = 3 units of utility.

What is the maximum quantity of the good that the individual will buy when its price is $4?

A 2 units **B** 3 units **C** 4 units **D** 5 units

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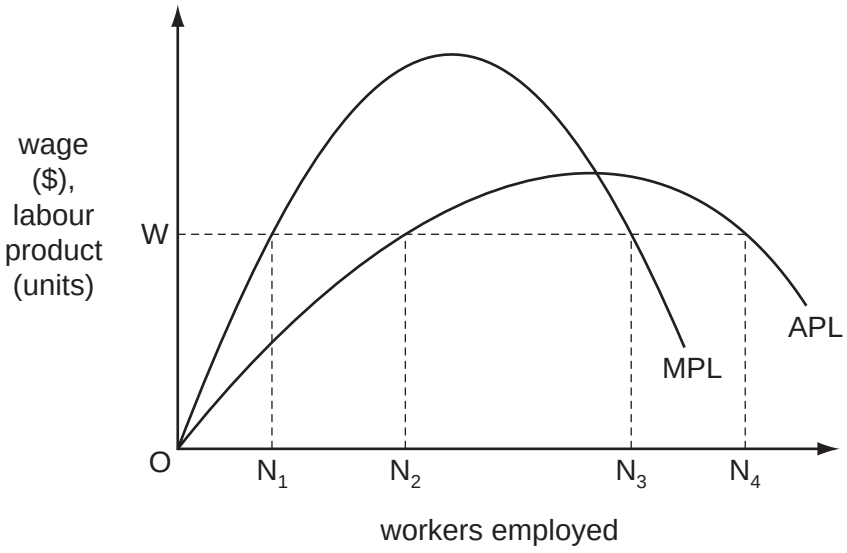
3 The curve JK in the diagram is a consumer's initial budget line.



Which combination could cause the budget line to shift to GH?

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

4 The diagram shows a perfectly competitive firm's average product of labour (APL) and marginal product of labour (MPL) curves.

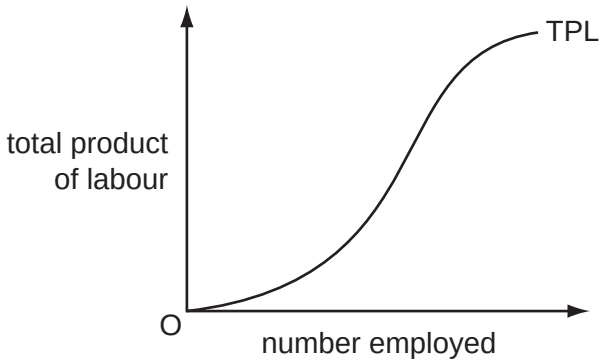


The market price of the firm's product is $1.

How many workers will the firm employ at a wage of OW?

A ON_1 **B** ON_2 **C** ON_3 **D** ON_4

5 The diagram shows the total product of labour curve for a firm whose only variable factor input is labour.



What explains the shape of the curve?

A diminishing marginal disutility of work

B increasing marginal disutility of work

C technical diseconomies of scale

D the law of variable proportions

6 Which is a financial economy of scale?

A lower costs in raising capital

B lower costs of marketing

C lower risk due to diversification

D lower variable costs of production

7 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

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8 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	35
materials	80
rent	30
marketing fees	20
interest on bank loans	25
interest forgone on finance provided by owner	10

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

A $75 000 **B** $45 000 **C** $35 000 **D** $10 000

9 The price elasticity of demand for a firm's product is zero.

What will be the effect on the firm's **revenue** if it reduces its price by 5 %?

A Its revenue will fall to zero.

B Its revenue will be unchanged.

C Its revenue will decrease by 5 %.

D Its revenue will increase by 5 %.

10 The five firm concentration ratio for an industry changes from 50 % to 60 %.

Which statement about the industry is correct?

A Each firm has become more efficient.

B The industry has become more oligopolistic.

C The industry has benefited from external economies of scale.

D The industry now has fewer barriers to entry.

11 Which condition must apply before a market can be regarded as perfectly contestable?

A All firms in the industry produce an identical product.

B All firms in the industry are price-takers.

C There are a large number of firms in the industry.

D There are zero costs of entry to, and exit from, the industry.

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12 A perfectly competitive firm is currently producing at a level of output where its marginal cost is above both its average total cost and the market price.

What will be the effect on price and output if the firm were to maximise its profit?

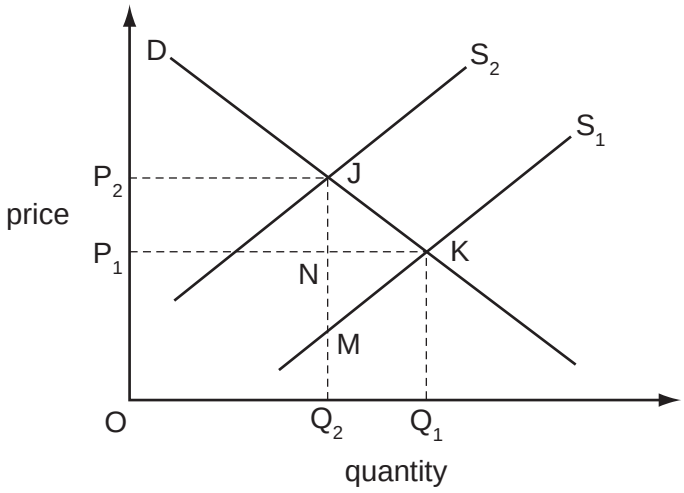
	effect on output	effect on price
A	decrease	increase
B	decrease	unchanged
C	increase	decrease
D	increase	unchanged

13 An industry moves from monopolistic competition to oligopoly.

How will this affect barriers to entry and the degree of interdependence between firms?

	barriers to entry	interdependence between firms
A	strengthen	strengthen
B	strengthen	weaken
C	weaken	strengthen
D	weaken	weaken

14 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

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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?

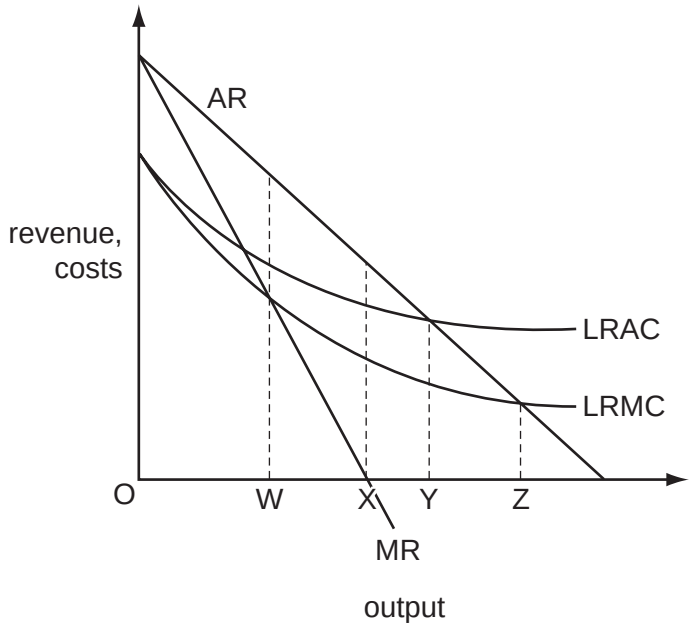
A allocate vouchers to all citizens entitling them to a share in the ownership of the monopoly

B encourage competition

C impose a maximum profit margin

D privatise the monopoly as a going concern

16 The diagram shows the long-run cost and revenue curves of a monopolist.



Which level of output satisfies the condition for an efficient allocation of resources?

A OW **B** OX **C** OY **D** OZ

17 Due to a cyclical downturn, a government is experiencing a budget deficit.

If the government wishes to stimulate aggregate demand, which policy would be most effective?

A financing the deficit by borrowing from the Central Bank

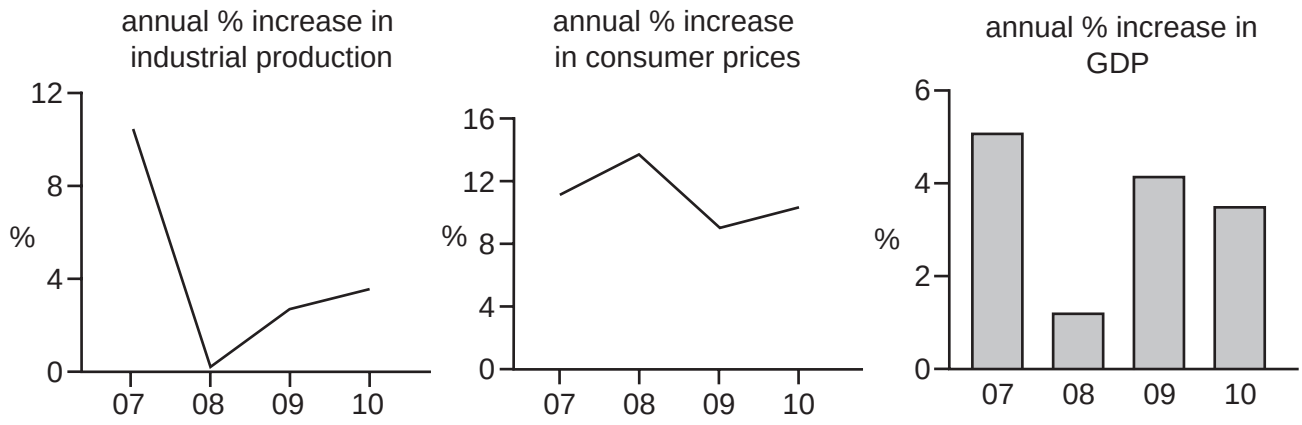
B financing the deficit by selling bonds to individuals

C financing the deficit by selling state assets to private firms

D increasing tax rates to eliminate the deficit

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18 The graphs indicate economic performance in a country between 2007 and 2010.



Which conclusion may be drawn from the graphs?

A Between 2007 and 2008 industrial production and GDP fell but prices rose.

B Between 2008 and 2009 the rates of growth of industrial production, GDP and prices all increased.

C GDP and industrial production were at their lowest in 2008.

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

19 Which represents an injection into an economy's circular flow of income?

A a balance of trade surplus

B a government budget surplus

C the retained profits of private companies

D household saving

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A an appreciation of the foreign exchange rate

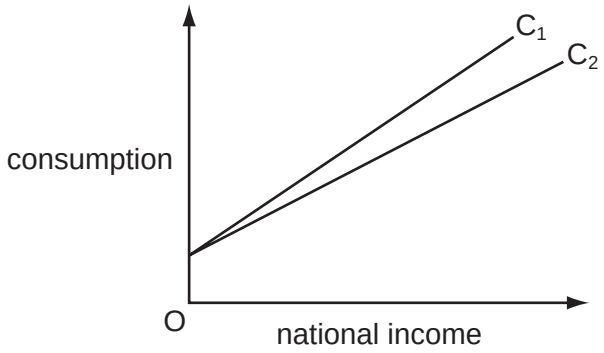
B an increase in output

C an increase in real wages

D an increase in the rate of interest

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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 the rate of unemployment benefits

B an increase in the standard rate of income tax

C an increase in exports

D an increase in investment

22 Other things being equal, the money supply in an open economy will increase if

A domestic banks increase their lending to foreign borrowers.

B the central bank buys foreign currency in the foreign exchange market.

C the government sells bonds to domestic residents.

D there is an increase in the volume of imports to the economy.

23 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

24 In a banking system all banks maintain 10 % of deposits as cash.

Customers withdraw $20 000 in cash.

Assuming no subsequent net change in notes and coins in circulation, by how much will the banks have to reduce their net loans?

A $2000 **B** $18 000 **C** $180 000 **D** $220 000

25 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	30
B	500	200	200
C	1 000	1 400	1 200
D	20 000	5 000	6 000

26 What is likely to result from the discovery of oil reserves in a developing economy?

A a more equal distribution of income and wealth

B an increase in the real exchange rate

C an increase in the competitiveness of commercial agriculture

D a reduction in the volume of imports of manufactured goods

27 A government's priority is to reduce the natural rate of unemployment (NAIRU).

Which policy would be most likely to help it achieve this objective?

A an increase in interest rates

B an increase in rates of unemployment benefit

C the introduction of minimum wage rates

D the introduction of subsidised travel for unemployed workers to search for jobs

28 The number of people employed in a country and the level of unemployment both decrease.

What could explain this?

A net inward immigration

B an increase in the level of unemployment benefits

C an increase in the age at which state pensions are payable

D an increase in the number of students

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29 The European Union imposes a quota on the volume of garments imported from China.

What is likely to be a consequence?

A an increase in the prices received by Chinese textile firms

B a reduction in the prices paid by EU consumers

C a switch to producing lower-value garments by Chinese textile firms

D a reduction in the volume of garments exported from China to non-EU markets

30 The government of Lesotho introduces a programme to promote exports and to encourage firms to grow by subsidising local entrepreneurs.

What effect is this likely to have on incomes, the balance of payments current account deficit and government expenditure in Lesotho?

	incomes	balance of payments current account deficit	government expenditure
A	fall	uncertain	rise
B	rise	reduce	no change
C	fall	reduce	rise
D	rise	uncertain	rise

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ECONOMICS **9708/32**

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This document consists of **12** printed pages.

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1 When is economic efficiency achieved in an economy?

A when nobody can become better off without somebody else becoming worse off

B when the economy is operating at its natural rate of unemployment

C when the level of social costs is minimised

D when the rate of economic growth is maximised

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

quantity of good (units)	total utility (units)
1	20
2	36
3	50
4	62
5	72
6	80

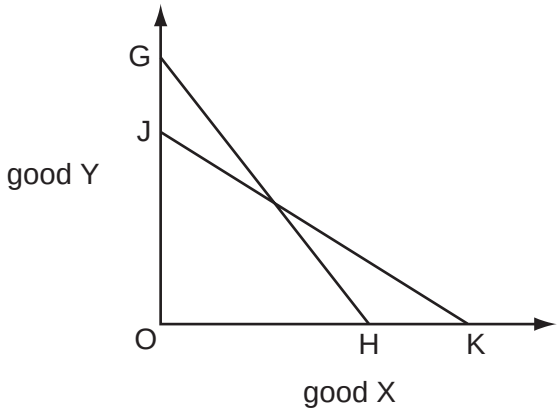
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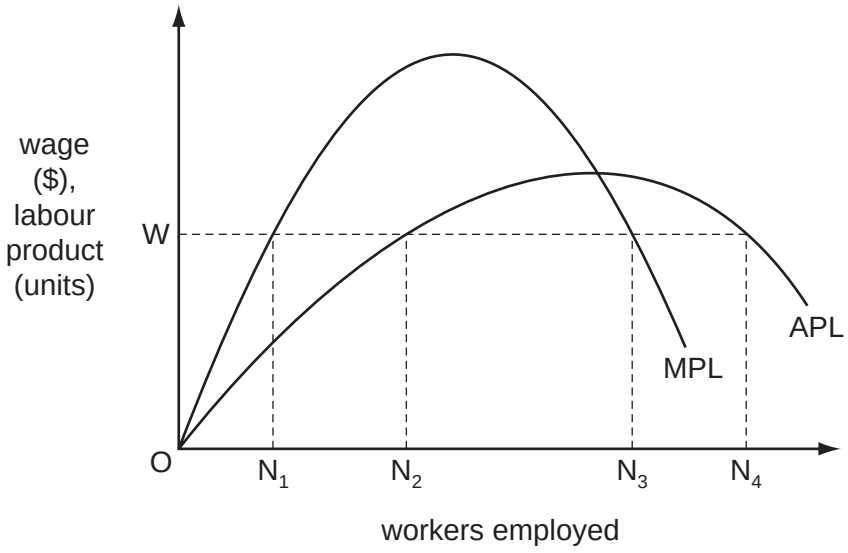
3 The curve GH in the diagram is a consumer's initial budget line.



Which combination could cause the budget line to shift to JK?

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

4 The diagram shows a perfectly competitive firm's average product of labour (APL) and marginal product of labour (MPL) curves.



The market price of the firm's product is $1.

How many workers will the firm employ at a wage of OW?

A ON_1 **B** ON_2 **C** ON_3 **D** ON_4

5 A firm experiences diseconomies of scale over its entire range of output.

What is the shape of its long-run average cost curve?

A It is horizontal.

B It is 'U' shaped.

C It slopes downwards.

D It slopes upwards.

6 Which is a financial economy of scale?

A lower costs in raising capital

B lower costs of marketing

C lower risk due to diversification

D lower variable costs of production

7 The table shows a firm's total costs of production.

production (tonnes)	total cost ($)
0	40
1	60
2	70
3	80
4	90
5	100

What is the average variable cost of producing 5 tonnes of output?

A $8.00 **B** $10.00 **C** $12.00 **D** $20.00

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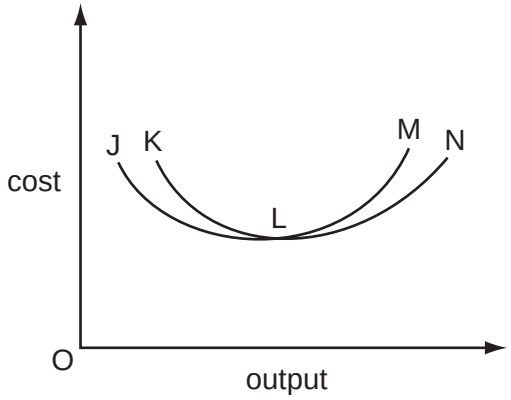
8 An economist calculates that a firm has incurred the following costs over the course of a year.

	$(000)
wages and salaries	150
opportunity cost of owner's time	35
materials	80
rent	30
marketing fees	20
interest on bank loans	25
interest forgone on finance provided by owner	10

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

A $75 000 **B** $45 000 **C** $35 000 **D** $10 000

9 The diagram shows a firm's short-run and long-run average cost curves.



Which curve is the firm's long-run average cost curve?

A JLN **B** JLM **C** KLM **D** KLN

10 The five firm concentration ratio for an industry changes from 50 % to 60 %.

Which statement about the industry is correct?

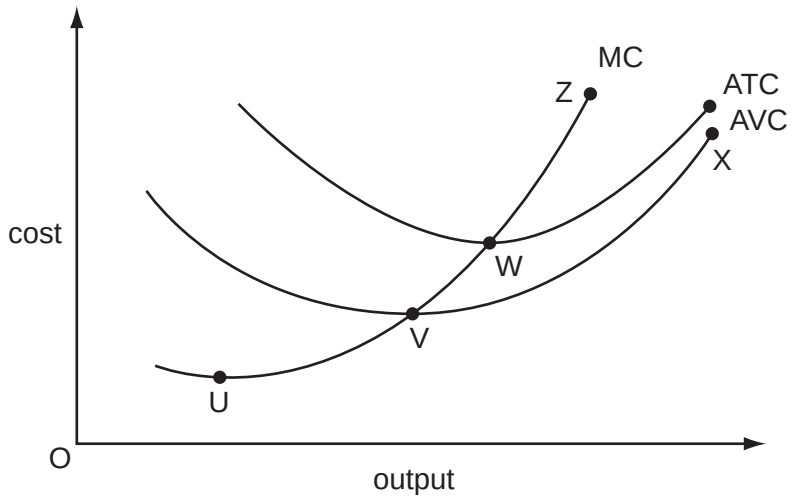
A Each firm has become more efficient.

B The industry has become more oligopolistic.

C The industry has benefited from external economies of scale.

D The industry now has fewer barriers to entry.

11 The diagram shows the cost curves of a firm in a perfectly competitive market.



Which segment of a curve shows the quantity that the firm would be willing to supply to the market in the short-run?

A VX **B** UZ **C** VZ **D** WZ

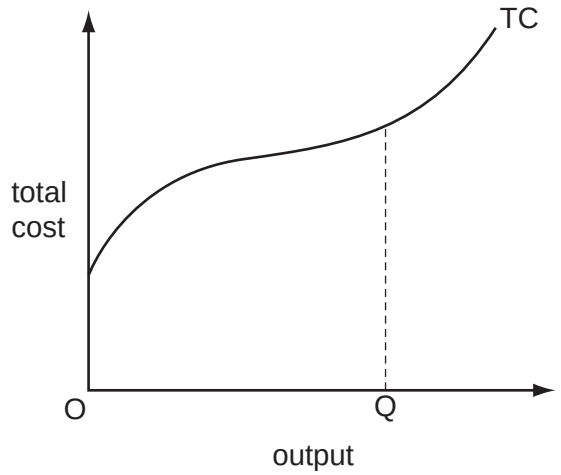
12 A perfectly competitive firm is currently producing at a level of output where its marginal cost is above both its average total cost and the market price.

What will be the effect on price and output if the firm were to maximise its profit?

	effect on output	effect on price
A	decrease	increase
B	decrease	unchanged
C	increase	decrease
D	increase	unchanged

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13 The diagram shows a firm's short-run total cost curve (TC).



What is minimised at output OQ?

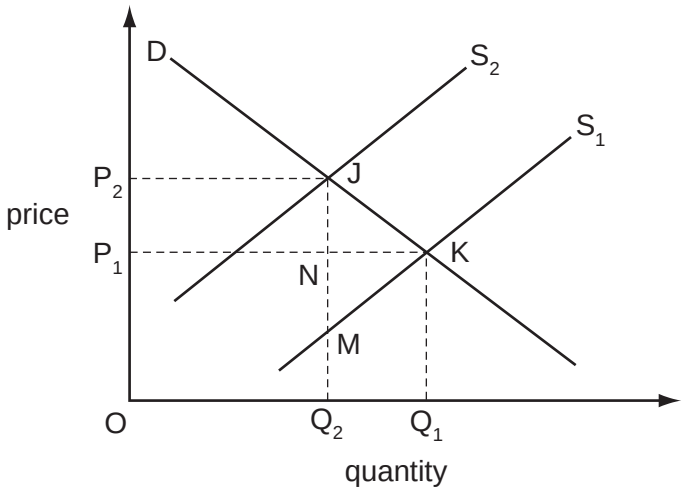
A average fixed cost

B average total cost

C average variable cost

D marginal cost

14 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

15 A good gives rise to external benefits and is produced under conditions of imperfect competition.

Which statement must be true?

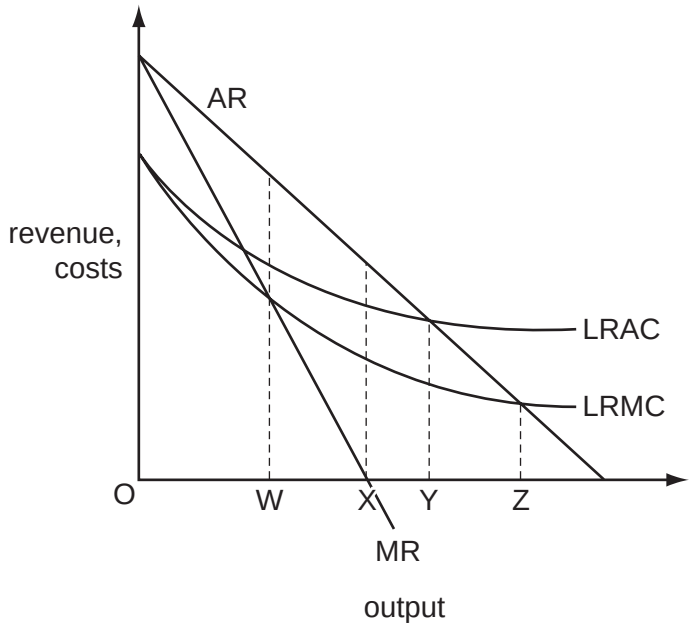
A Benefits to consumers exceed the benefits to society.

B Firms producing the good will make a loss.

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

D Social costs of production exceed private costs.

16 The diagram shows the long-run cost and revenue curves of a monopolist.



Which level of output satisfies the condition for an efficient allocation of resources?

A OW **B** OX **C** OY **D** OZ

17 A government uses real personal disposable income per head as a measure of the standard of living.

What does this measure **not** take into account?

A the distribution of income

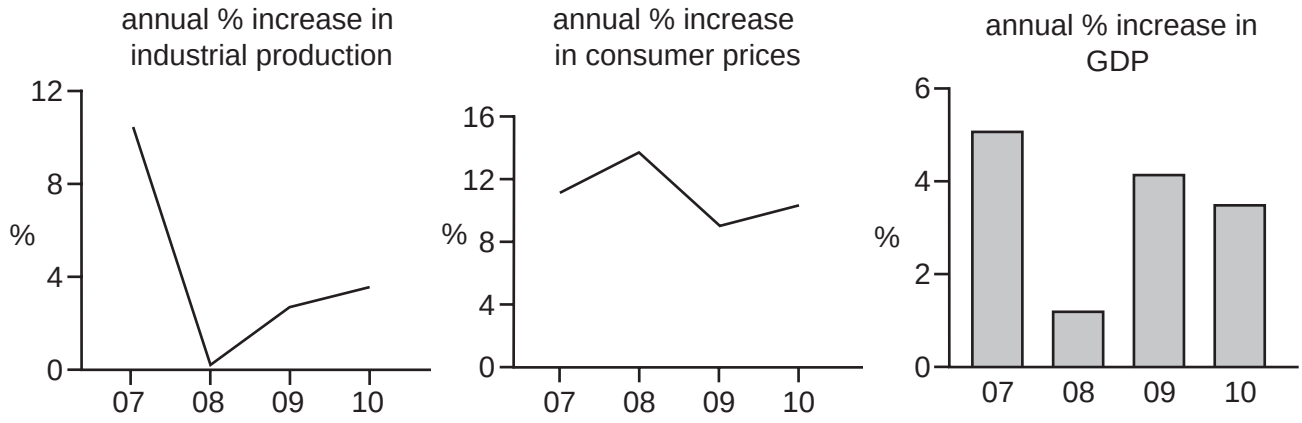
B the level of national income

C the size of the population

D the average price level

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18 The graphs indicate economic performance in a country between 2007 and 2010.



Which conclusion may be drawn from the graphs?

A Between 2007 and 2008 industrial production and GDP fell but prices rose.

B Between 2008 and 2009 the rates of growth of industrial production, GDP and prices all increased.

C GDP and industrial production were at their lowest in 2008.

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

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C the retained profits of private companies

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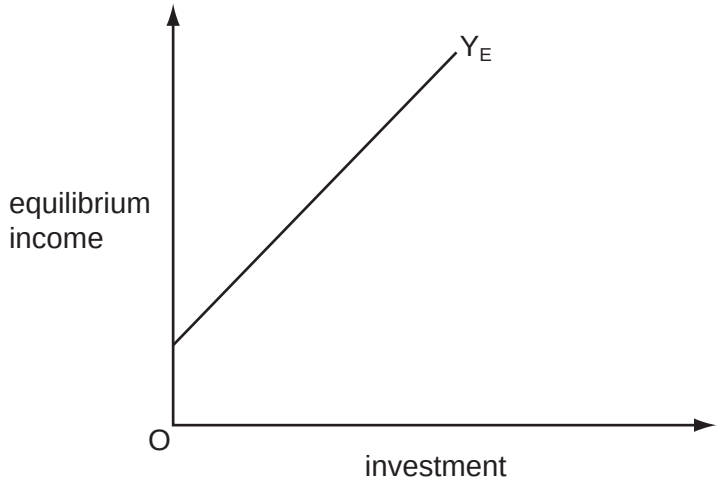
A an appreciation of the foreign exchange rate

B an increase in output

C an increase in real wages

D an increase in the rate of interest

21 In the diagram, Y_E indicates the equilibrium level of income corresponding to different levels of investment.



What does the slope of the line Y_E measure?

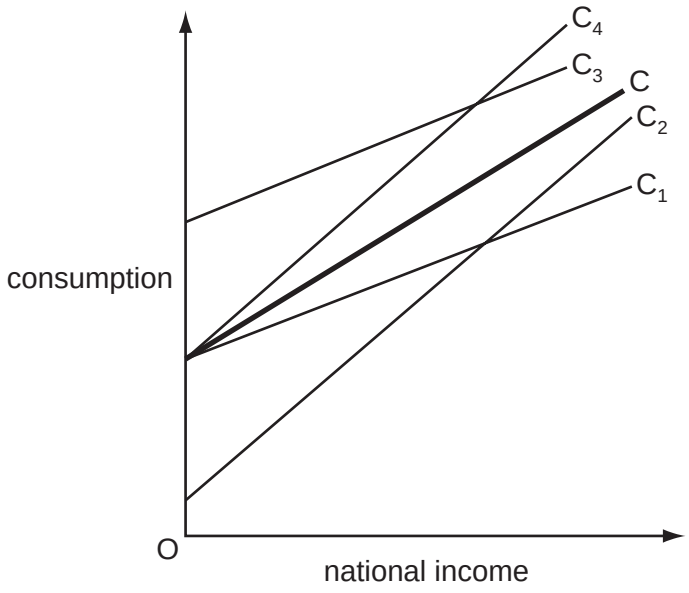
A the investment multiplier

B the marginal propensity to save

C the rate of growth of investment

D the rate of growth of national income

22 In the diagram, C is an economy's initial relationship between consumption and national income.



Which curve could show the economy's new consumption function following a reduction in the rate of unemployment benefits?

A C_1 **B** C_2 **C** C_3 **D** C_4

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23 What would result in an increase in the volume of bank deposits?

A an increase in the public's desire to hold cash

B an increase in government expenditure financed by borrowing from the central bank

C an increase in the proportion of their deposits that banks hold in cash

D an open market sale of securities by the central bank

24 In a banking system all banks maintain 10 % of deposits as cash.

Customers withdraw $20 000 in cash.

Assuming no subsequent net change in notes and coins in circulation, by how much will the banks have to reduce their net loans?

A $2000 **B** $18 000 **C** $180 000 **D** $220 000

25 Which change is most likely to increase both economic growth and economic development in the long-run?

A a decrease in the savings ratio

B an increase in investment in human capital

C the depletion of non-renewable resources

D the greater use of compulsory overtime working of labour

26 What is likely to result from the discovery of oil reserves in a developing economy?

A a more equal distribution of income and wealth

B an increase in the real exchange rate

C an increase in the competitiveness of commercial agriculture

D a reduction in the volume of imports of manufactured goods

27 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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28 The number of people employed in a country and the level of unemployment both decrease.

What could explain this?

A net inward immigration

B an increase in the level of unemployment benefits

C an increase in the age at which state pensions are payable

D an increase in the number of students

29 What would be an appropriate government action to reduce both a balance of payments current account surplus and the rate of inflation?

A increase the money supply

B increase direct taxes

C remove tariffs on imports

D devalue the currency

30 The government of Lesotho introduces a programme to promote exports and to encourage firms to grow by subsidising local entrepreneurs.

What effect is this likely to have on incomes, the balance of payments current account deficit and government expenditure in Lesotho?

	incomes	balance of payments current account deficit	government expenditure
A	fall	uncertain	rise
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D	rise	uncertain	rise

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B Marginal social costs are at a minimum in the production of all goods.

C Marginal social benefits are at a maximum in the production of all goods.

D Marginal social costs equal marginal social benefits in the production of all goods.

2 A utility maximising consumer spends the whole of his disposable income of $40 on food and clothing.

The table shows the price of food, the quantity purchased by the consumer, and the marginal utility he derives from food consumption.

food	
price per unit	$5
quantity demanded	5
marginal utility (units)	10

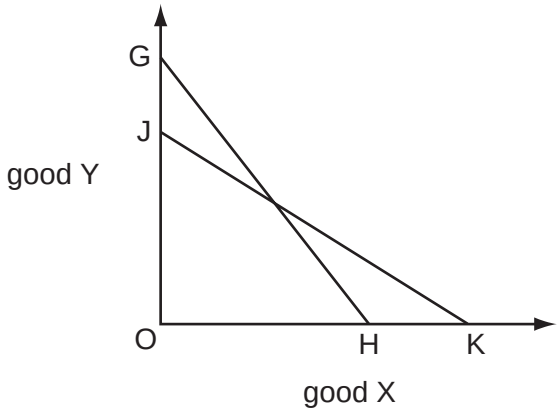
His marginal utility from clothing is 2 units.

What is the price of clothing per unit and the quantity purchased by the consumer?

	clothing	
	price ($)	quantity (units)
A	0.5	30
B	1.0	15
C	3.0	5
D	5.0	3

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3 The curve JK in the diagram is a consumer's initial budget line.



Which combination could cause the budget line to shift to GH?

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

4 A firm employs two factors, X and Y, to produce a good which is sold for $4.

The table shows its factor productivities and factor prices.

factor	marginal physical product	factor price ($)
X	3	15
Y	5	12

What should the firm do?

A employ less of both X and Y

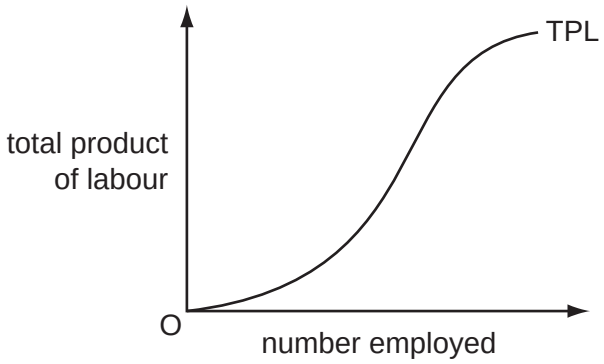
B employ more of X and less of Y

C employ more of Y and less of X

D employ more of both X and Y

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5 The diagram shows the total product of labour curve for a firm whose only variable factor input is labour.



What explains the shape of the curve?

A diminishing marginal disutility of work

B increasing marginal disutility of work

C technical diseconomies of scale

D the law of variable proportions

6 A worker responds to an increase in his hourly wage rate by reducing the number of hours he works per week.

What would explain this?

A The income effect of the wage rate increase outweighs the substitution effect.

B The substitution effect of the wage rate increase outweighs the income effect.

C The worker's supply of labour is wage elastic.

D The worker's supply of labour is wage inelastic.

7 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

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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 The price elasticity of demand for a firm's product is zero.

What will be the effect on the firm's **revenue** if it reduces its price by 5 %?

A Its revenue will fall to zero.

B Its revenue will be unchanged.

C Its revenue will decrease by 5 %.

D Its revenue will increase by 5 %.

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

A All firms in the industry produce identical products.

B Firms that assemble the final product buy components from specialist firms within the industry.

C Production within the industry is subject to diseconomies of scale.

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

11 Which condition must apply before a market can be regarded as perfectly contestable?

A All firms in the industry produce an identical product.

B All firms in the industry are price-takers.

C There are a large number of firms in the industry.

D There are zero costs of entry to, and exit from, the industry.

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12 The table shows the total revenue and marginal cost of a firm at different levels of production.

production (tonnes)	total revenue ($)	marginal cost ($)
2	100	5
3	120	10
4	140	15
5	160	20
6	180	25
7	200	30

Within which output range will the firm's profits be maximised?

A 2-3 tonnes

B 3-4 tonnes

C 4-5 tonnes

D 5-6 tonnes

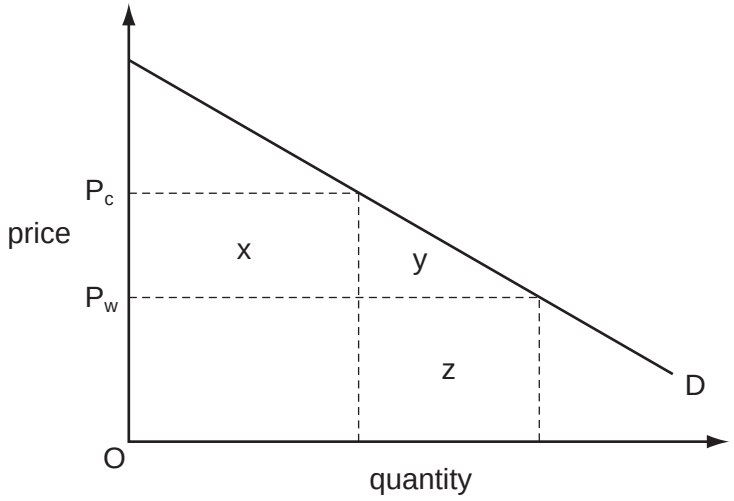
13 An industry moves from monopolistic competition to oligopoly.

How will this affect barriers to entry and the degree of interdependence between firms?

	barriers to entry	interdependence between firms
A	strengthen	strengthen
B	strengthen	weaken
C	weaken	strengthen
D	weaken	weaken

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14 In the diagram, D is a country's demand curve for an imported good. The world price of the good is OP_W.



Which area measures the deadweight loss to the country of imposing an import tariff equal to $P_W P_C$ on the good?

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

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 What might make Gross National Product (GNP) per capita a misleading indicator when comparing living standards in different countries?

A differences between market exchange rates and purchasing power parity exchange rates

B differences in capital investment as a proportion of GNP

C differences in exports and imports as a proportion of GNP

D differences in net property income from abroad

17 Due to a cyclical downturn, a government is experiencing a budget deficit.

If the government wishes to stimulate aggregate demand, which policy would be most effective?

A financing the deficit by borrowing from the Central Bank

B financing the deficit by selling bonds to individuals

C financing the deficit by selling state assets to private firms

D increasing tax rates to eliminate the deficit

18 Which represents a leakage from a country's circular flow of income?

A a government budget deficit

B bank loans to private companies

C the purchase of foreign assets by the country's households

D unemployment benefits

19 Which statement would be consistent with a monetarist view of the workings of the macroeconomy?

A The demand for money function can shift in an unpredictable way.

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

C Interest rates have little effect on aggregate money expenditure.

D A sustained inflation is always associated with an increasing money supply.

20 In a closed economy with no government, the equilibrium level of income is $25 million, the full employment level of income is $30 million and there is a deflationary gap of $1 million.

What can be deduced from this information?

A The level of investment is $5 million.

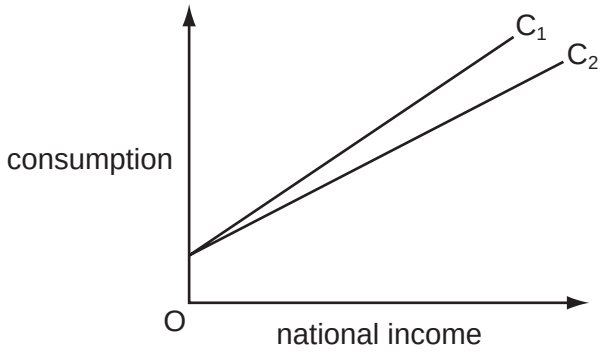
B The marginal propensity to consume is $\frac{4}{5}$.

C The marginal propensity to consume is $\frac{5}{6}$.

D The value of the investment multiplier is 1.5.

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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 the rate of unemployment benefits

B an increase in the standard rate of income tax

C an increase in exports

D an increase in investment

22 Other things being equal, the money supply in an open economy will increase if

A domestic banks increase their lending to foreign borrowers.

B the central bank buys foreign currency in the foreign exchange market.

C the government sells bonds to domestic residents.

D there is an increase in the volume of imports to the economy.

23 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

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

A an appreciation in the country's currency

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

C an improvement in the country's trade balance

D an increase in the country's real GDP

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25 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	30
B	500	200	200
C	1 000	1 400	1 200
D	20 000	5 000	6 000

26 How will outward migration from a developing economy 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 its currency to depreciate.

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

27 A government's priority is to reduce the natural rate of unemployment (NAIRU).

Which policy would be most likely to help it achieve this objective?

A an increase in interest rates

B an increase in rates of unemployment benefit

C the introduction of minimum wage rates

D the introduction of subsidised travel for unemployed workers to search for jobs

28 Other things being equal, what is likely to result from a reduction in interest rates in a country?

A an appreciation of the country's currency

B a decrease in consumption

C a decrease in investment

D an outflow of short-term capital

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29 The European Union imposes a quota on the volume of garments imported from China.

What is likely to be a consequence?

A an increase in the prices received by Chinese textile firms

B a reduction in the prices paid by EU consumers

C a switch to producing lower-value garments by Chinese textile firms

D a reduction in the volume of garments exported from China to non-EU markets

30 A government responds to cyclical fluctuations in output by keeping tax rates and benefit rates unchanged.

What is the government seeking to achieve by adopting this fiscal policy?

A to allow automatic stabilisers to work

B to keep output at the full employment level

C to maintain a constant balanced budget

D to ensure that its budget is in surplus over the trade cycle

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