UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Level

ECONOMICS **9708/31**

Paper 3 Multiple Choice (Supplement) **May/June 2013**

1 hour

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

9616154357

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Write your name, Centre number and candidate number on the Answer Sheet in the spaces provided unless this has been done for you.
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1 The introduction of equal pay legislation in a country increases the wages of female workers.

What will be the most likely effect of this increase?

A a reduction of the rate of female unemployment

B a reduction in the wages of male workers

C an expansion in the supply of female workers

D substitution of male workers by female workers

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	20
2	36
3	48
4	56
5	60
6	62

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

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

	factor X	factor Y
marginal physical product	2	4
factor price	$5.00	$10.00

If the firm sells its product at $3 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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4 The table shows the output of chairs at a factory when different numbers of workers are employed.

number of workers	0	1	2	3	4	5
number of chairs produced	0	7	17	26	34	40

Diminishing marginal returns to labour will set in when

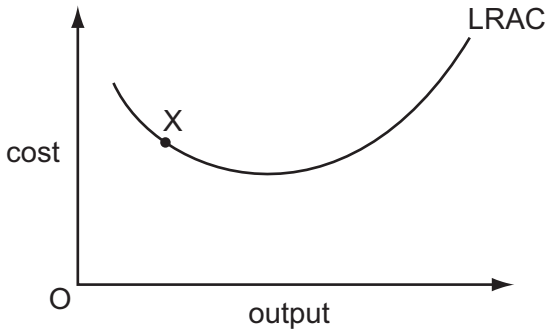
A the second worker is employed.

B the third worker is employed.

C the fourth worker is employed.

D the fifth worker is employed.

5 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 at its cost-minimising level of output.

C It is operating its plant at full capacity.

D It is producing its current output at minimum cost.

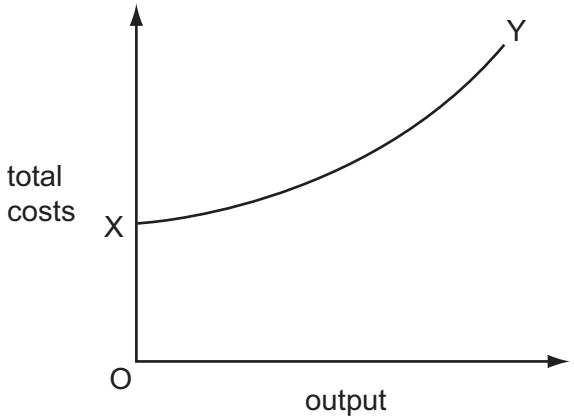
6 The table shows the inputs of the two factors of production, capital and labour, needed to produce varying levels of output.

output	capital	labour
100	5	10
200	8	16
300	12	24
400	16	32
500	24	48

Over which range of output do decreasing returns to scale occur?

A 100 to 200 **B** 200 to 300 **C** 300 to 400 **D** 400 to 500

7 In the diagram, XY is a firm's total cost curve.



What happens to the firm's costs as output is increased?

	average fixed costs	average variable costs
A	decrease	decrease
B	decrease	increase
C	constant	decrease
D	constant	increase

8 What is **most** likely to pose a threat to the survival of small local bakeries?

A an increase in the cost per minute of television advertising

B a switch in consumer preferences to cheaper mass-produced bread

C diseconomies of scale in the process of bread production

D increased congestion on road networks

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9 The demand for a firm's product is perfectly elastic.

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

A Its revenue will be unchanged.

B Its revenue will decrease by 5%.

C Its revenue will fall to zero.

D Its revenue will increase by 5%.

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	decreases	decreases
B	decreases	increases
C	increases	decreases
D	increases	increases

11 A firm earns supernormal profit when its profit is

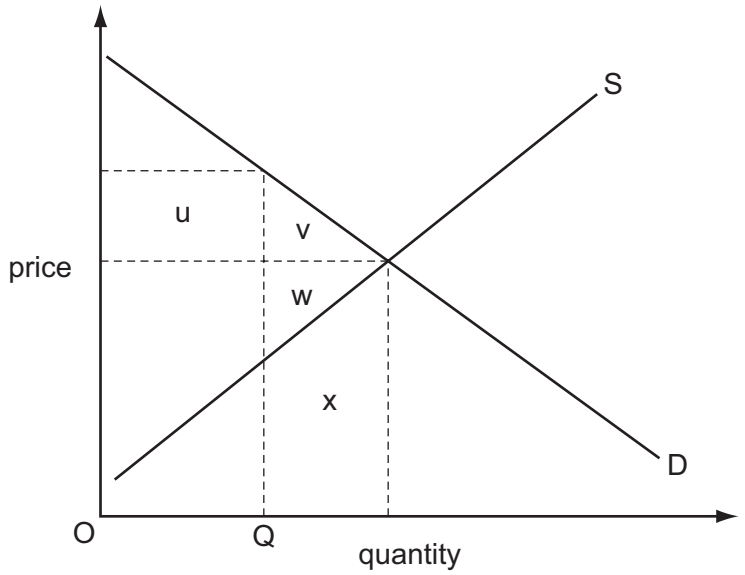
A above that earned by competing firms.

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.

12 The diagram shows an industry's supply and demand curves.



The government initially restricts the quantity to OQ.

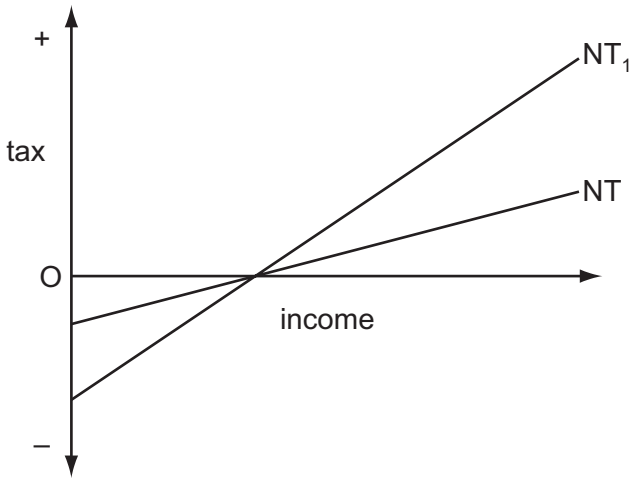
The restriction on the quantity is then removed.

In the absence of externalities, which area in the diagram measures the net gain in economic welfare?

A u **B** v **C** v + w **D** v + w + x

13 A country has a negative income tax.

The curve NT in the diagram shows the country's initial tax schedule.



A change in the tax rate causes the schedule to shift to NT_1.

What is **most** likely to be the impact on incentives and on equity?

	incentives	equity
A	improvement	improvement
B	improvement	worsening
C	worsening	improvement
D	worsening	worsening

14 What adjustments to real GNP per head might make it a more reliable indicator when comparing standards of living in different countries?

A adjustments to allow for differences in population size in different countries

B adjustments to allow for differences in rates of inflation in different countries

C adjustments to allow for differences in the relative size of the hidden economy in different countries

D the use of market exchange rates rather than purchasing power parity exchange rates

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15 Which combination of circumstances is most likely to lead to an increase in a country's budget deficit?

	total GDP	unemployment	discretionary government spending
A	decreases	rises	decreases
B	decreases	rises	no change
C	increases	falls	increases
D	increases	falls	no change

16 Which correctly identifies injections into a country's circular flow of income?

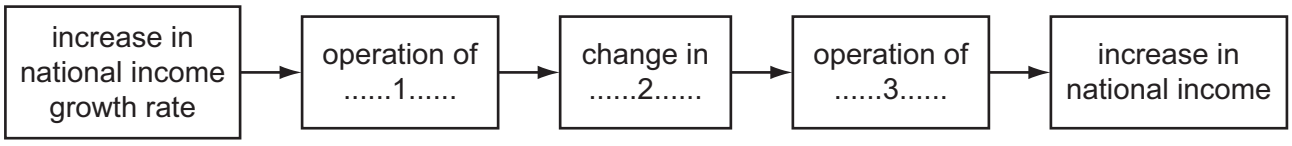
	private sector (S > I)	public sector (T > G)	trade sector (X > M)
A	no	no	no
B	no	no	yes
C	yes	no	no
D	yes	yes	yes

17 A closed economy with no government has a marginal propensity to consume of 0.9. Its full employment national income is $60 000 m. Its current national income is $40 000 m.

To achieve full employment, by how much must investment be increased?

A $2000 m **B** $6000 m **C** $18 000 m **D** $20 000 m

18 The diagram sets out how an increase in the rate of growth of national income can lead to a further increase in national income.



What must be inserted into the diagram at points 1, 2 and 3?

	1	2	3
A	the accelerator	induced investment	the accelerator
B	the accelerator	induced investment	the multiplier
C	the multiplier	autonomous investment	the accelerator
D	the multiplier	autonomous investment	the multiplier

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19 What will result from a rise in interest rates?

A a depreciation in the exchange rate

B a fall in the price of bonds

C an increase in capital spending

D an increase in the demand for money

20 In which circumstance will an increase in the public sector deficit **not** lead to an increase in the money supply, other things being equal?

A Commercial bank lending to the private sector is held constant.

B The deficit is financed by an increase in government borrowing from private individuals.

C The rate of interest is held constant.

D There is large-scale unemployment.

21 What is meant by liquidity preference?

A a desire to be paid in cash rather than by cheque

B a desire to be paid monthly rather than weekly

C a desire to hold assets that are convertible into cash

D a desire to hold money rather than other assets

22 Which combination is usually found in developing countries?

A a low birth rate and a dominant primary sector

B capital intensive production and a rapidly growing population

C external debt and a low death rate

D labour intensive production and a low rate of saving

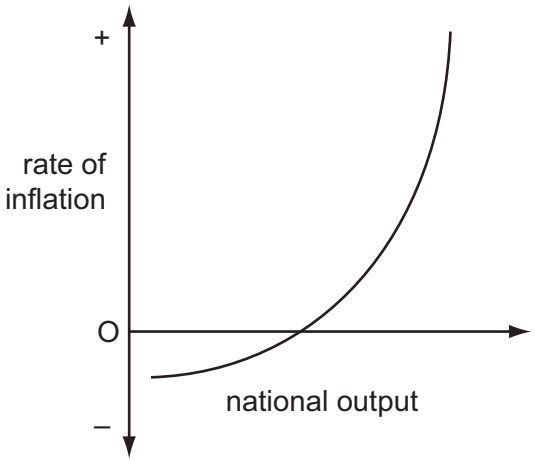
23 Which pattern of labour market data is likely to indicate an increase in cyclical unemployment?

	changes in	
	compulsory redundancies	voluntary resignations
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

24 What would an economist include when using social cost-benefit analysis to assess policies to reduce the level of unemployment?

	changes in crime rates	changes in mental health	changes in work skills
A	no	no	no
B	no	no	yes
C	yes	no	yes
D	yes	yes	yes

25 The diagram shows the short-run trade-off between a country's inflation rate and its national output level.



What could cause the curve to shift to the left?

A an increase in the money supply

B an increase in labour productivity

C an increase in the expected future rate of inflation

D an increase in the budget deficit

26 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

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27 The table gives the percentage of employment in the primary, secondary and tertiary sectors in four countries.

Which country is most likely to be a developed country?

	primary sector %	secondary sector %	tertiary sector %
A	15	40	45
B	30	40	30
C	35	45	20
D	45	35	20

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 An economy has a balance of payments trade surplus and a high level of inflation.

What would be an appropriate action for a government to take?

A devalue the currency

B reduce direct taxes

C increase the money supply

D remove tariffs on imports

30 What does a government need to do to maintain a balanced budget?

A keep tax rates and benefit rates unchanged in a slump

B raise taxes in a slump and lower taxes in a boom

C raise both tax rates and benefit rates in a boom

D raise both tax rates and benefit rates in a slump

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ECONOMICS **9708/32**

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1 In which market situation will a firm take account of the reactions of its competitors before deciding to cut its price?

A monopoly

B monopolistic competition

C oligopoly

D perfect competition

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	20
2	36
3	50
4	62
5	72
6	80

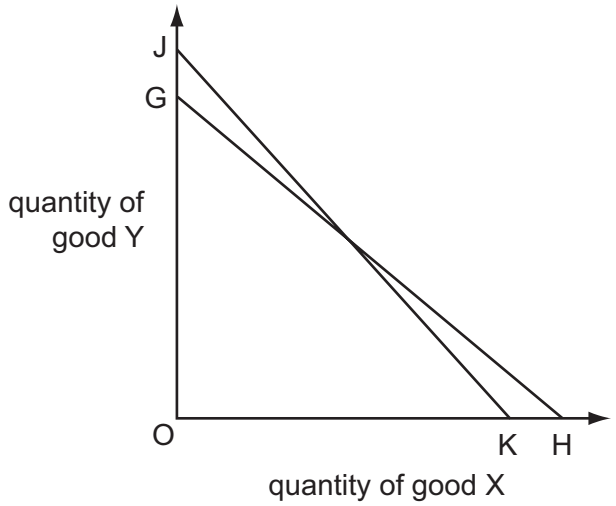
The individual's marginal utility of money is $1 = 2 units of utility.

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 budget line shifts from GH to JK.



Which statement must be correct?

A The price of good Y has fallen relative to the price of good X.

B There has been a decrease in the price of good Y.

C There has been an increase in the price of good X.

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

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

	factor X	factor Y
marginal physical product	3	12
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

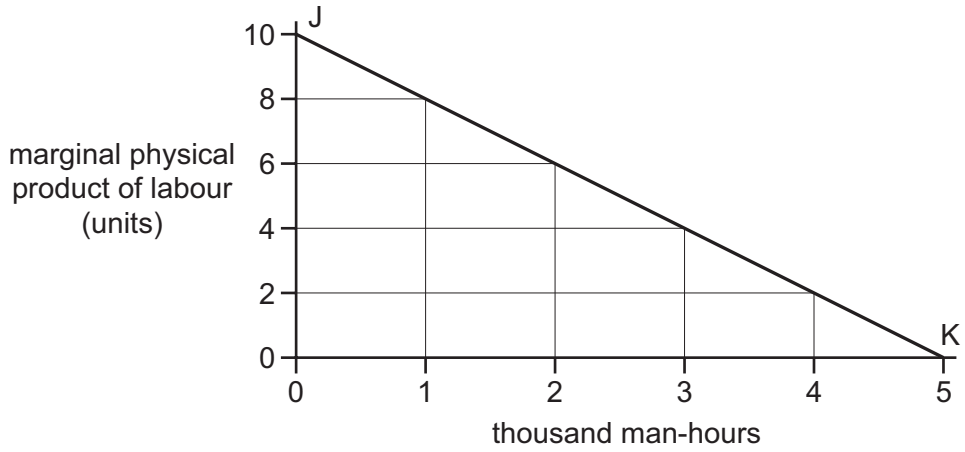
C more of Y and less of X

D less of both X and Y

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5 A firm operates under perfect competition in both product and factor markets with labour as the only variable factor input.

In the diagram, the line JK shows the relationship between the marginal physical product of labour and the man-hours hired.



When the hourly wage is $3.20, the firm employs 4000 man-hours per day.

What is the price of the product?

A $1.60 **B** $2.00 **C** $3.20 **D** $6.40

6 A fashion model is paid $100 000 a year.

The next best paid job she could get is as a teacher at $60 000 a year.

What are her transfer earnings and her economic rent?

	transfer earnings $	economic rent $
A	60 000	zero
B	60 000	40 000
C	100 000	zero
D	100 000	40 000

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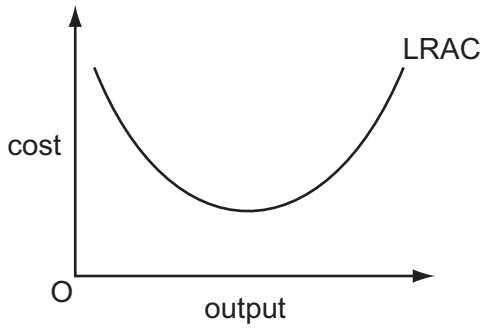
7 An economist calculates that a firm has incurred the following costs over the course of the year.

	$(000)
wages and salaries	150
opportunity cost of owner's time	40
materials	80
rent of buildings	30
marketing fees	20
interest on bank loans	25
interest forgone on finance provided by owner	15
depreciation of equipment	20

By how much would the economist's calculation of the total cost incurred by the firm exceed an accountant's calculation of the firm's total cost?

A $15 000 **B** $40 000 **C** $55 000 **D** $75 000

8 The diagram shows the long-run average cost curve of a firm which faces constant factor prices.



Which economic concepts in the table explain the shape of the LRAC curve?

	economies and diseconomies of scale	the law of diminishing returns	the law of variable proportions
A	✓	✓	✗
B	✓	✗	✗
C	✗	✓	✓
D	✗	✗	✓

9 Which feature of an economy would be most favourable for the survival of small firms?

A capital intensive production

B economies of scale in production

C the presence of a stock exchange

D the widespread availability of bank lending

10 The demand for a firm's product is perfectly inelastic.

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

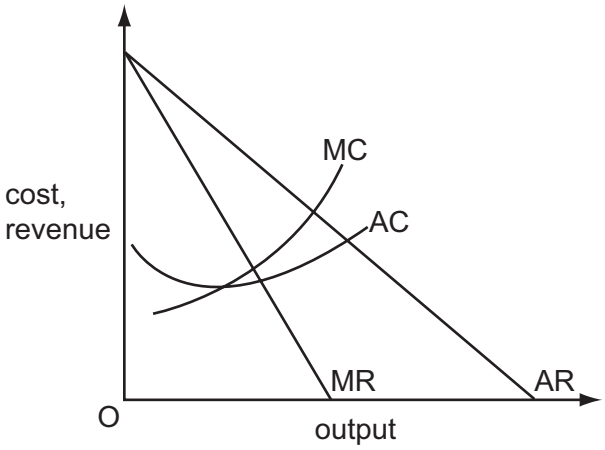
A Its revenue will be unchanged.

B Its revenue will increase by 5%.

C Its revenue will decrease by 5%.

D Its revenue will fall to zero.

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



The firm changes its objective from sales revenue maximisation to profit maximisation.

Which groups are most likely to be winners and losers as a result of this change?

	winners	losers
A	customers	managers
B	managers	workers
C	workers	shareholders
D	shareholders	customers

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12 A firm operates in a perfectly competitive market.

Which relationship between the firm's cost and revenue describes a position where allocative efficiency would be improved if the firm reduces its present level of output?

A P = MR > MC

B P = MR < MC

C P > MR = MC

D P > MR > MC

13 Which change would make it easier for a cartel to operate effectively?

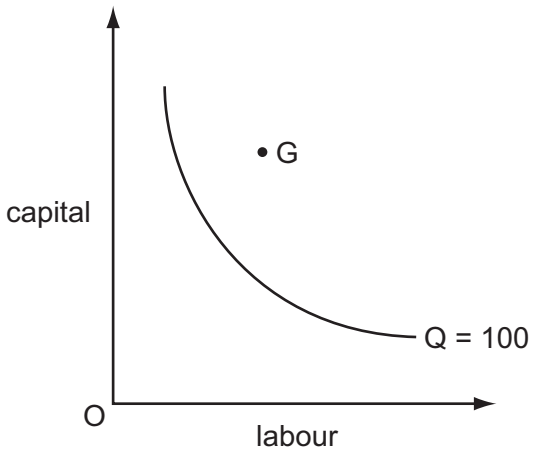
A an increase in competition from closely related industries

B an increase in the number of firms in the industry

C an increase in the range of products made by cartel members

D an increase in the stability of the market for its products

14 The curve in the diagram shows the minimum combinations of capital and labour that are needed to produce 100 units of output.



A firm's management hires the combination of capital and labour indicated by point G in the diagram to produce 100 units of output.

Which term best describes this situation?

A lack of specialisation

B managerial diseconomy

C market failure

D X-inefficiency

15 The table shows the marginal tax rates paid by a country's taxpayers at different levels of income.

income	tax rate
first $4000	zero
$4001 - $20 000	20 %
above $20 000	40 %

What correctly describes this tax?

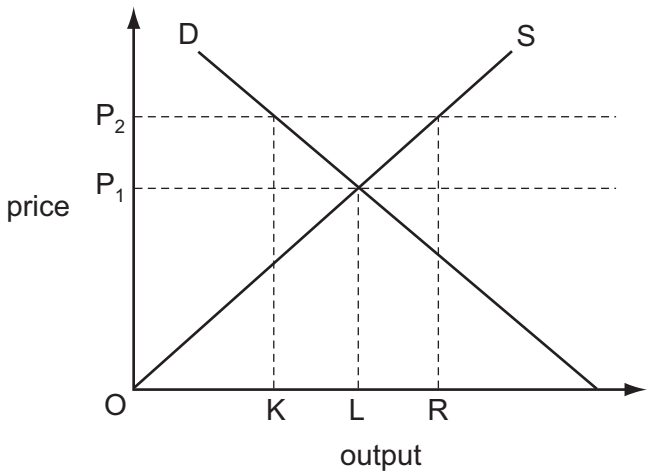
A It is regressive over the entire range of income.

B It is proportional over the income range $4001 - $20 000.

C It is proportional over the range of income above $20 000.

D It is progressive over the range of income above $4000.

16 The diagram shows the market supply and demand curves for corn.



What should a government do if it is to maintain a minimum price of OP_2?

A buy quantity KR

B buy quantity LR

C sell quantity KL

D sell quantity OL

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17 National income statistics show that real GDP per head is 25% higher in country X than in country Y.

Why might this difference exaggerate the gap in average living standards between the two countries?

A Country X has a larger population than country Y.

B Country X has a higher rate of inflation than country Y.

C The proportion of services people provide for themselves is higher in country Y.

D The proportion of the country's industry which is owned by foreign firms is higher in country Y.

18 A country's central bank engages in a policy of quantitative easing (open market purchase of securities).

How is this policy meant to affect the quantity of narrow money and the quantity of broad money?

	effect on narrow money	effect on broad money
A	increase	increase
B	increase	decrease
C	decrease	increase
D	decrease	decrease

19 According to monetarist theory, what will be the short-run effect on the level of output and on the price level of an unanticipated increase in the money supply?

	effect on output	effect on the price level
A	increase	increase
B	increase	no change
C	no change	increase
D	no change	no change

20 Which correctly identifies injections into a country's circular flow of income?

	private sector I > S	government sector G > T	trade sector M > X
A	no	yes	yes
B	yes	no	no
C	yes	yes	no
D	no	no	yes

21 Other things remaining unchanged, what is likely to be a consequence of an increase in net cash withdrawals from the commercial banks?

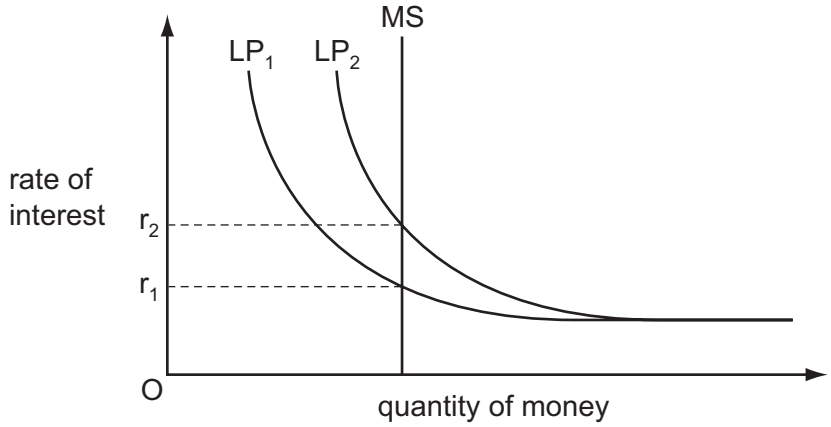
A an inflationary spiral

B an increase in the cash reserves of the commercial banks

C an increase in the liquidity of the commercial banks

D a restriction in the ability of the commercial banks to lend

22 The diagram shows the determination of the rate of interest in an economy where MS represents the money supply and LP represents liquidity preference.



The rate of interest rises as a result of a shift in the liquidity preference curve from LP_1 to LP_2.

Which policy might be used to try to maintain the rate at r_1?

A increased government expenditure

B increases in indirect taxes

C reductions in income tax rates

D the purchase of bonds in the open market

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23 The table gives the percentage of employment in the primary, secondary and tertiary sectors in four countries.

Which country is most likely to be a developing country?

	primary sector %	secondary sector %	tertiary sector %
A	15	40	45
B	30	40	30
C	35	45	20
D	45	35	20

24 Which policy is specifically designed to reduce the level of structural unemployment?

A an increase in the level of state benefits paid to the unemployed

B a reduction in interest rates

C a reduction in the level of direct taxation

D the provision of retraining schemes

25 What would be most likely to stimulate long-run growth in an economy?

A employment protection legislation

B government policy to raise aggregate demand

C technical innovations by firms

D the development of trade unions

26 The European Union imposes a quota on the volume of garments imported from Brazil.

What is likely to be a consequence?

A a decrease in the price paid by EU consumers for Brazilian garments

B a reduction in the inflation rate in the EU

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

D the closure of Brazilian-owned textile factories

27 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

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28 What is the main objective of supply side policies?

A to bring a country's potential output up to the level of its actual output

B to ensure a budget surplus

C to ensure that the composition of output matches the pattern of demand

D to increase potential output by increasing efficiency

29 What will increase the multiplier effect of an increase in government spending on national income?

A an increase in direct taxation

B an increase in interest rates

C an increase in the marginal propensity to consume

D an increase in the marginal propensity to import

30 Without any change in government policy, what will be the effect of an economic recession on tax revenue and on government expenditure?

	tax revenue	government expenditure
A	decrease	decrease
B	decrease	increase
C	increase	increase
D	increase	decrease

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

	factor X	factor Y
marginal physical product	2	4
factor price	$5.00	$10.00

If the firm sells its product at $3 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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4 The table shows the output of chairs at a factory when different numbers of workers are employed.

number of workers	0	1	2	3	4	5
number of chairs produced	0	7	17	26	34	40

Diminishing marginal returns to labour will set in when

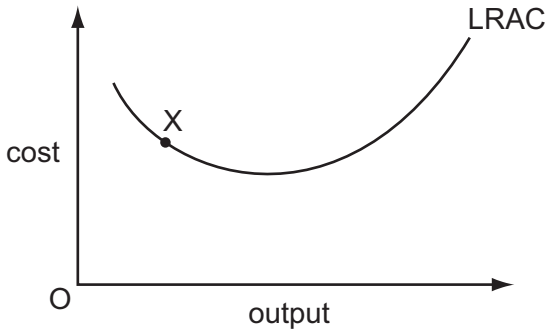
A the second worker is employed.

B the third worker is employed.

C the fourth worker is employed.

D the fifth worker is employed.

5 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 at its cost-minimising level of output.

C It is operating its plant at full capacity.

D It is producing its current output at minimum cost.

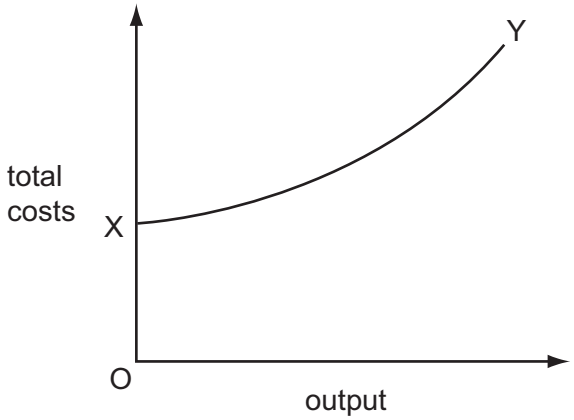
6 The table shows the inputs of the two factors of production, capital and labour, needed to produce varying levels of output.

output	capital	labour
100	5	10
200	8	16
300	12	24
400	16	32
500	24	48

Over which range of output do decreasing returns to scale occur?

A 100 to 200 **B** 200 to 300 **C** 300 to 400 **D** 400 to 500

7 In the diagram, XY is a firm's total cost curve.



What happens to the firm's costs as output is increased?

	average fixed costs	average variable costs
A	decrease	decrease
B	decrease	increase
C	constant	decrease
D	constant	increase

8 What is **most** likely to pose a threat to the survival of small local bakeries?

A an increase in the cost per minute of television advertising

B a switch in consumer preferences to cheaper mass-produced bread

C diseconomies of scale in the process of bread production

D increased congestion on road networks

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9 The demand for a firm's product is perfectly elastic.

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

A Its revenue will be unchanged.

B Its revenue will decrease by 5%.

C Its revenue will fall to zero.

D Its revenue will increase by 5%.

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	decreases	decreases
B	decreases	increases
C	increases	decreases
D	increases	increases

11 A firm earns supernormal profit when its profit is

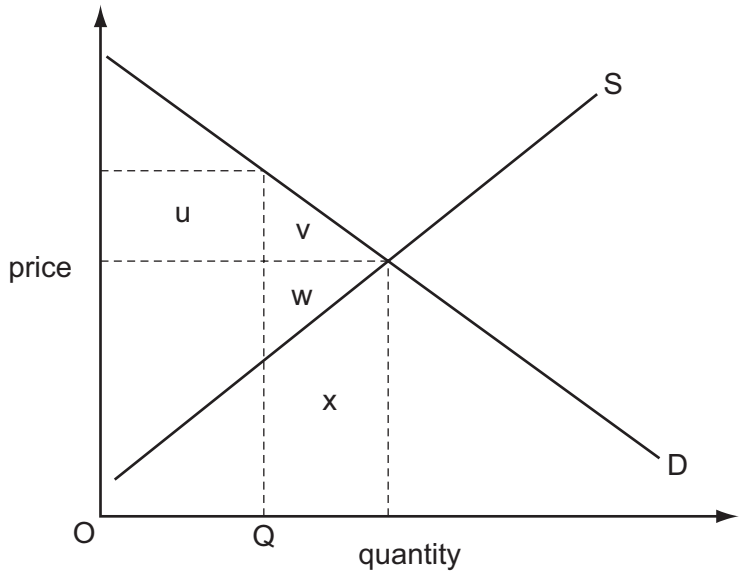
A above that earned by competing firms.

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.

12 The diagram shows an industry's supply and demand curves.



The government initially restricts the quantity to OQ.

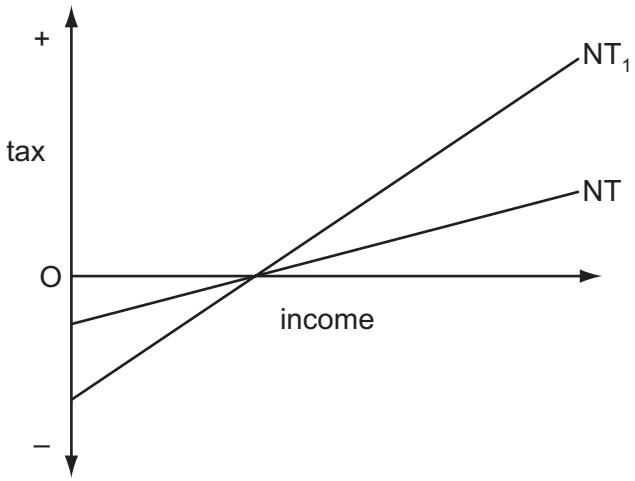
The restriction on the quantity is then removed.

In the absence of externalities, which area in the diagram measures the net gain in economic welfare?

A u **B** v **C** v + w **D** v + w + x

13 A country has a negative income tax.

The curve NT in the diagram shows the country's initial tax schedule.



A change in the tax rate causes the schedule to shift to NT_1.

What is **most** likely to be the impact on incentives and on equity?

	incentives	equity
A	improvement	improvement
B	improvement	worsening
C	worsening	improvement
D	worsening	worsening

14 What adjustments to real GNP per head might make it a more reliable indicator when comparing standards of living in different countries?

A adjustments to allow for differences in population size in different countries

B adjustments to allow for differences in rates of inflation in different countries

C adjustments to allow for differences in the relative size of the hidden economy in different countries

D the use of market exchange rates rather than purchasing power parity exchange rates

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15 Which combination of circumstances is most likely to lead to an increase in a country's budget deficit?

	total GDP	unemployment	discretionary government spending
A	decreases	rises	decreases
B	decreases	rises	no change
C	increases	falls	increases
D	increases	falls	no change

16 Which correctly identifies injections into a country's circular flow of income?

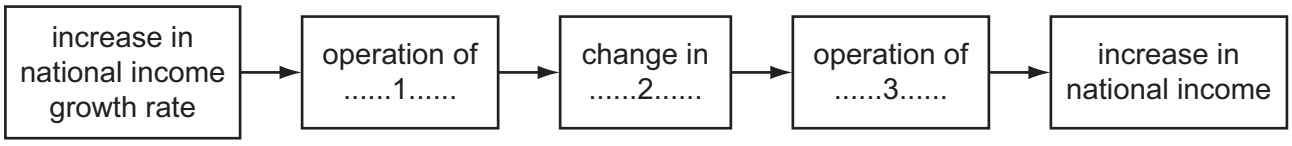
	private sector (S > I)	public sector (T > G)	trade sector (X > M)
A	no	no	no
B	no	no	yes
C	yes	no	no
D	yes	yes	yes

17 A closed economy with no government has a marginal propensity to consume of 0.9. Its full employment national income is $60 000 m. Its current national income is $40 000 m.

To achieve full employment, by how much must investment be increased?

A $2000 m **B** $6000 m **C** $18 000 m **D** $20 000 m

18 The diagram sets out how an increase in the rate of growth of national income can lead to a further increase in national income.



What must be inserted into the diagram at points 1, 2 and 3?

	1	2	3
A	the accelerator	induced investment	the accelerator
B	the accelerator	induced investment	the multiplier
C	the multiplier	autonomous investment	the accelerator
D	the multiplier	autonomous investment	the multiplier

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19 What will result from a rise in interest rates?

A a depreciation in the exchange rate

B a fall in the price of bonds

C an increase in capital spending

D an increase in the demand for money

20 In which circumstance will an increase in the public sector deficit **not** lead to an increase in the money supply, other things being equal?

A Commercial bank lending to the private sector is held constant.

B The deficit is financed by an increase in government borrowing from private individuals.

C The rate of interest is held constant.

D There is large-scale unemployment.

21 What is meant by liquidity preference?

A a desire to be paid in cash rather than by cheque

B a desire to be paid monthly rather than weekly

C a desire to hold assets that are convertible into cash

D a desire to hold money rather than other assets

22 Which combination is usually found in developing countries?

A a low birth rate and a dominant primary sector

B capital intensive production and a rapidly growing population

C external debt and a low death rate

D labour intensive production and a low rate of saving

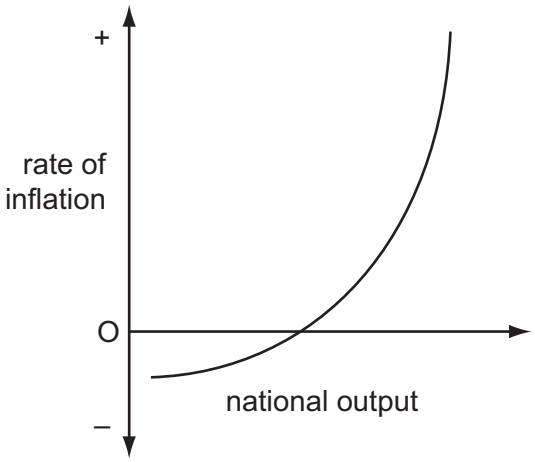
23 Which pattern of labour market data is likely to indicate an increase in cyclical unemployment?

	changes in	
	compulsory redundancies	voluntary resignations
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

24 What would an economist include when using social cost-benefit analysis to assess policies to reduce the level of unemployment?

	changes in crime rates	changes in mental health	changes in work skills
A	no	no	no
B	no	no	yes
C	yes	no	yes
D	yes	yes	yes

25 The diagram shows the short-run trade-off between a country's inflation rate and its national output level.



What could cause the curve to shift to the left?

A an increase in the money supply

B an increase in labour productivity

C an increase in the expected future rate of inflation

D an increase in the budget deficit

26 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

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27 The table gives the percentage of employment in the primary, secondary and tertiary sectors in four countries.

Which country is most likely to be a developed country?

	primary sector %	secondary sector %	tertiary sector %
A	15	40	45
B	30	40	30
C	35	45	20
D	45	35	20

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 An economy has a balance of payments trade surplus and a high level of inflation.

What would be an appropriate action for a government to take?

A devalue the currency

B reduce direct taxes

C increase the money supply

D remove tariffs on imports

30 What does a government need to do to maintain a balanced budget?

A keep tax rates and benefit rates unchanged in a slump

B raise taxes in a slump and lower taxes in a boom

C raise both tax rates and benefit rates in a boom

D raise both tax rates and benefit rates in a slump

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