Cambridge International A Level

Cambridge International Examinations
Cambridge International Advanced Level

ECONOMICS **9708/31**

Paper 3 Multiple Choice (Supplement) **May/June 2014**

1 hour

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

* 5 3 4 8 5 0 2 4 9 6 *

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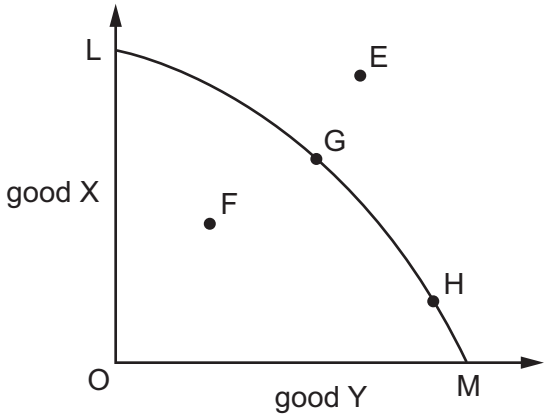
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1 In the diagram, LM is an economy's production possibility curve.



Which statement is correct?

A E only is attainable.

B F is economically efficient.

C G may be economically efficient but is not productively efficient.

D H is productively efficient but may not be economically efficient.

2 A consumer seeks to maximise his utility.

Up to what point should he continue to consume each good?

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

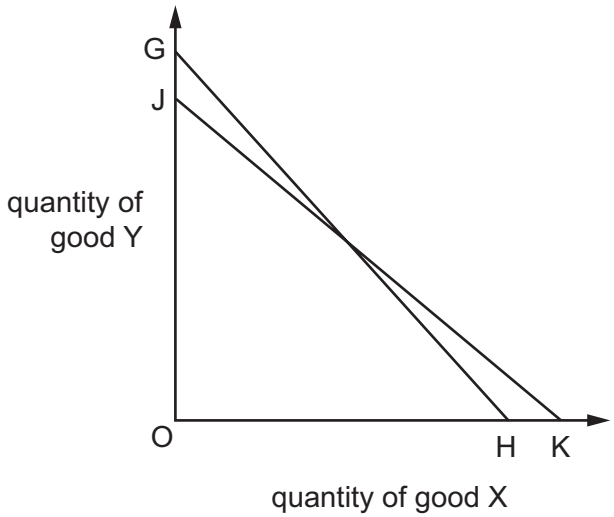
B until the marginal utility from each good is the same

C until the marginal utility from each good reaches a maximum

D until the marginal utility from each good is zero

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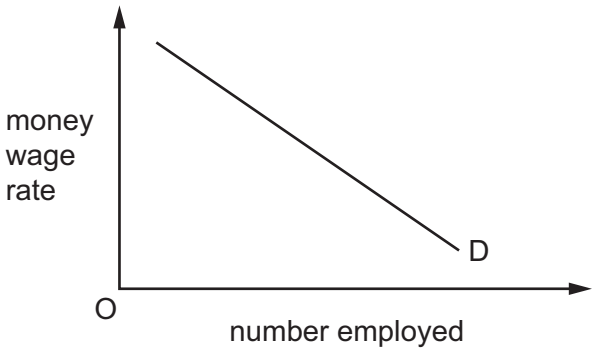
3 In the diagram a consumer's initial budget line is GH.



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

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

4 The diagram shows the demand curve for labour.



What could cause the demand curve to shift to the right?

A a decrease in labour productivity

B an increase in immigration

C an increase in the average price level

D a fall in the money wage rate

5 A firm currently employs 100 workers at a daily wage rate of $500 per worker.

It calculates that the marginal cost per day of hiring an additional worker would be $702.

By how much would the daily wage rate per worker have to be increased to attract an extra worker?

A $2 **B** $70.20 **C** $202 **D** $702

6 A trade union seeks to increase the wages that a firm pays to its workers while at the same time avoiding any job losses.

What will weaken the union's negotiating position?

A Capital and labour are close substitutes.

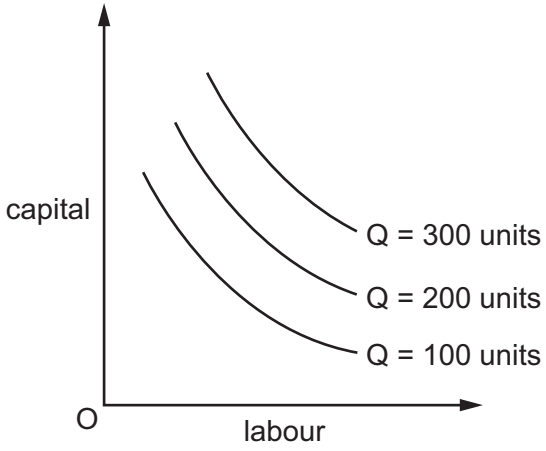
B The firm enjoys monopsony power in a labour market.

C The demand for the good produced by the firm is price-inelastic.

D The supply of labour to the firm is highly inelastic.

7 A firm employs two factors of production, capital and labour.

The curves in the diagram show the different combinations of capital and labour a firm needs to produce given levels of output.



What does the diagram show?

A the firm's long-run production function

B the firm's long-run total cost function

C the firm's short-run production function

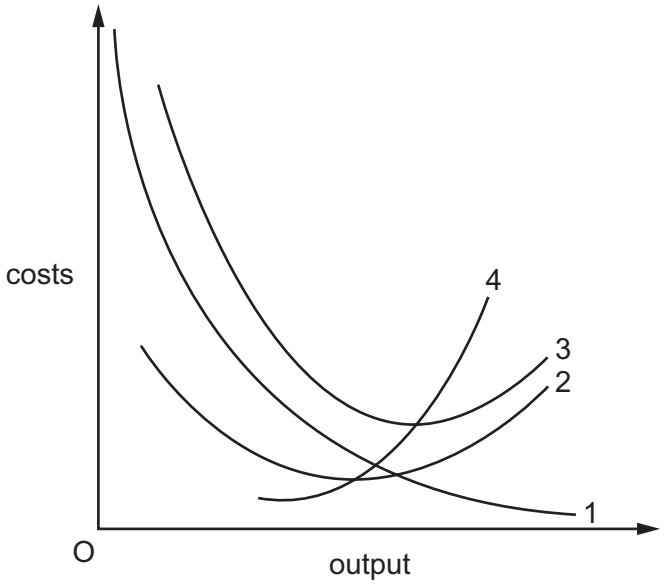
D the firm's short-run total cost function

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8 What will be the effect on price and output of a subsidy on each item produced by a profit maximising monopolist?

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

9 The diagram shows the short-run cost curves of a firm.



Which statement is correct?

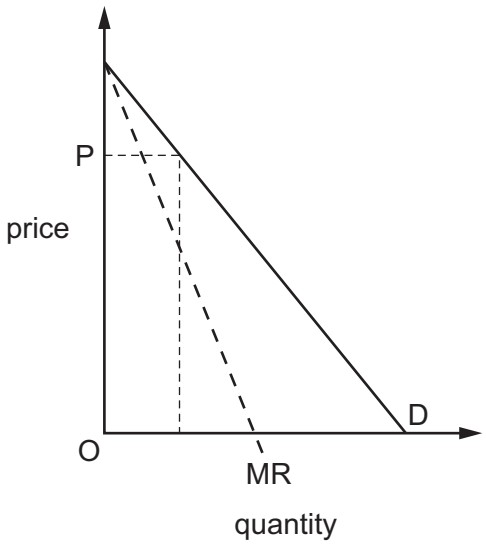
A Curve 1 is the marginal cost curve.

B Curve 2 is the average variable cost curve.

C Curve 3 is the average fixed cost curve.

D Curve 4 is the average total cost curve.

10 The diagram shows a firm's demand curve and its marginal revenue curve.



What is the approximate price elasticity of demand at price P?

A 0.25 **B** 0.5 **C** 1 **D** 3

11 What determines the contestability of a market?

A the costs of entry and exit

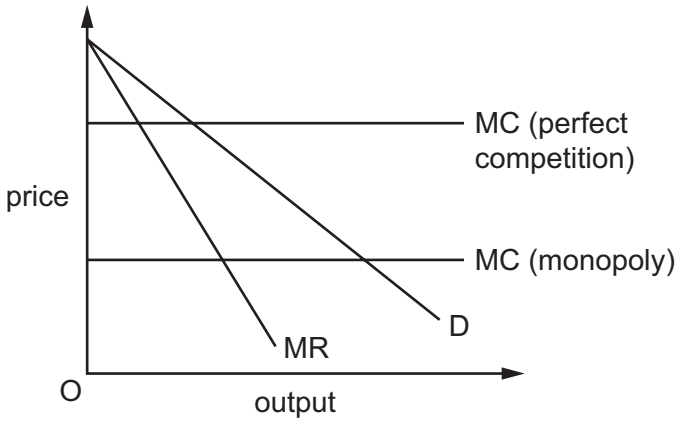
B the degree of differentiation of the product

C the number of firms in the industry

D the price elasticity of demand for the product

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12 The diagram shows the change in an industry's cost of production when it moves from perfect competition to monopoly. There is no change in the demand for the industry's product.



What effect will the change in market structure in this industry have on price, output and consumer surplus?

	price	output	consumer surplus
A	increase	increase	reduce
B	increase	reduce	reduce
C	reduce	increase	increase
D	reduce	reduce	increase

13 A firm decides to maximise sales revenue rather than profits.

What is likely to be one of the consequences of this decision?

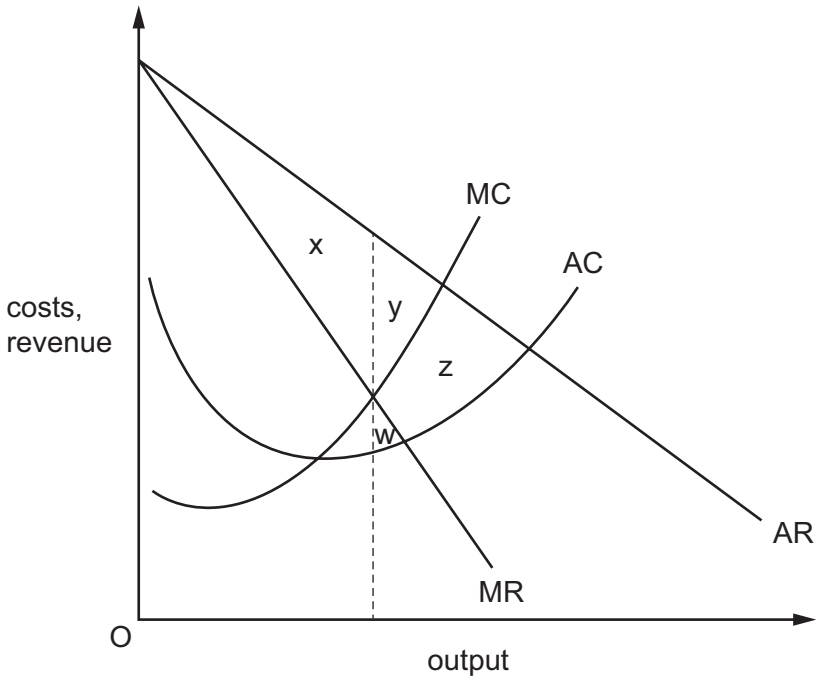
A an increase in the price of the firm's product

B a reduction in the price of the firm's shares

C a reduction in the firm's market share

D a reduction in the number employed by the firm

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



Which area measures the deadweight loss arising from the exercise of monopoly power?

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

15 Income inequality can be measured by the Gini coefficient. On a scale of 0 to 100, the higher the value the greater the inequality.

The table below shows three Gini coefficient values for four OECD countries. The first is from wages, the second when government welfare payments are included and the third when welfare payments and government health and education spending are included.

In which country did welfare payments make the greatest contribution to income redistribution?

	inequality after wages from work	inequality after wages and welfare payments	inequality after wages, welfare payments and health and education spending
A	36.8	25.9	18.1
B	40.5	31.3	24.8
C	40.6	26.1	22.3
D	45.3	37.0	30.3

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16 What is an advantage of means-tested benefits over universal benefits?

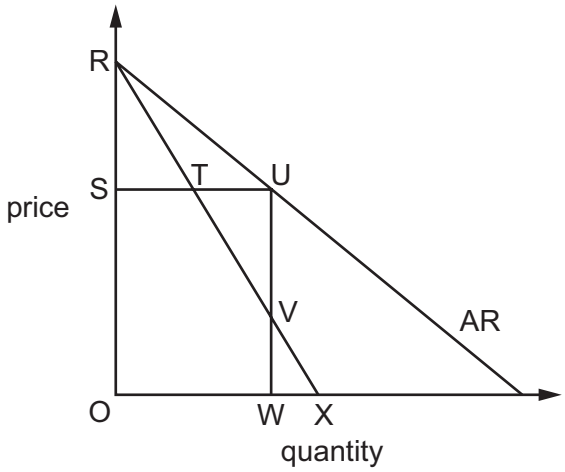
A an increase in the percentage of those who take up benefits for which they are eligible

B a reduction in the rate at which benefits are withdrawn as households' incomes increase

C a reduction in the poverty trap

D the targeting of benefits on those in greatest need

17 A monopolist has a marginal revenue curve shown in the diagram by RTVX.



What will be the monopolist's new marginal revenue curve if the government introduces a maximum price, OS?

A RTVW **B** RUVX **C** STVX **D** SUVX

18 The information in the table is taken from a country's national income accounts.

	$ million
national income	1000
consumer spending	750
investment spending	100
government spending on goods and services	170
taxation	110
imports	120

What is the value of exports?

A $100 million **B** $120 million **C** $190 million **D** $210 million

19 The table shows a government's expenditure and its tax revenues over the period 2010-2013.

	2010	2011	2012	2013
government expenditure ($ billion)	250	260	280	280
government tax revenue ($ billion)	260	260	270	275

What impact did the changes in the government's fiscal balance have on the national debt and on aggregate expenditure?

		impact on national debt	impact on aggregate expenditure
A	2010-2011	no change	no change
B	2011-2012	increase	raise
C	2012-2013	decrease	lower
D	2012-2013	increase	raise

20 What is **not** a leakage from the circular flow of income?

A expenditure on foreign goods

B indirect taxes

C undistributed profits

D unemployment benefits

21 In a closed economy with no government, an increase in investment of $100 million results in an increase in **consumption** of $300 million.

What is the marginal propensity to consume?

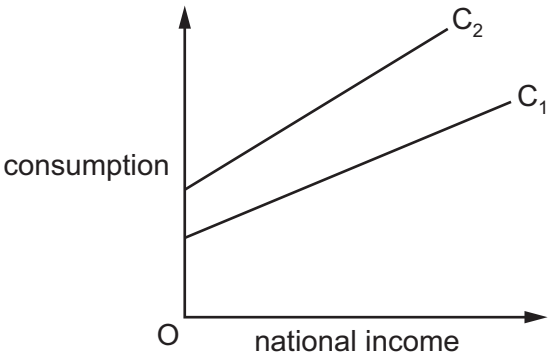
A $\frac{1}{5}$ **B** $\frac{1}{4}$ **C** $\frac{3}{4}$ **D** $\frac{4}{5}$

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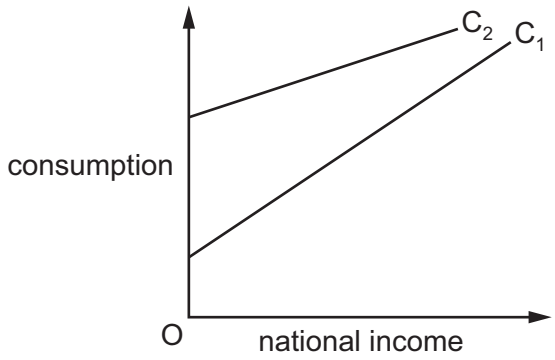
22 A government increases the rate of unemployment benefit.

Which diagram shows the resulting shift (from C_1 to C_2) in the consumption function?

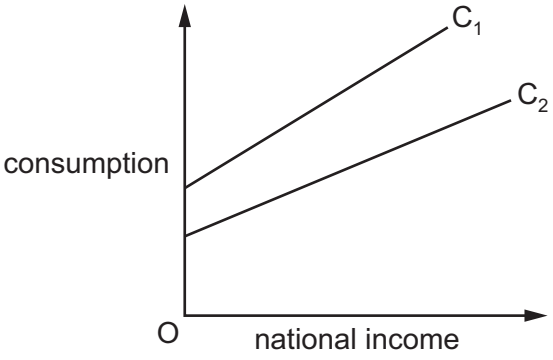
A



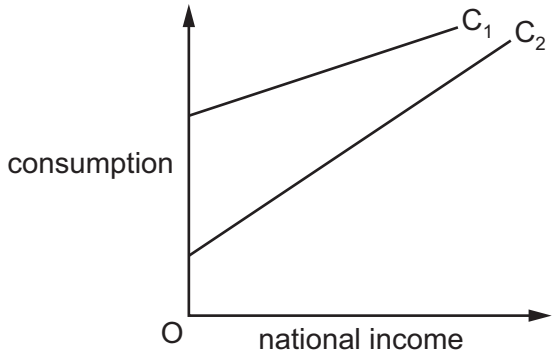
B



C



D



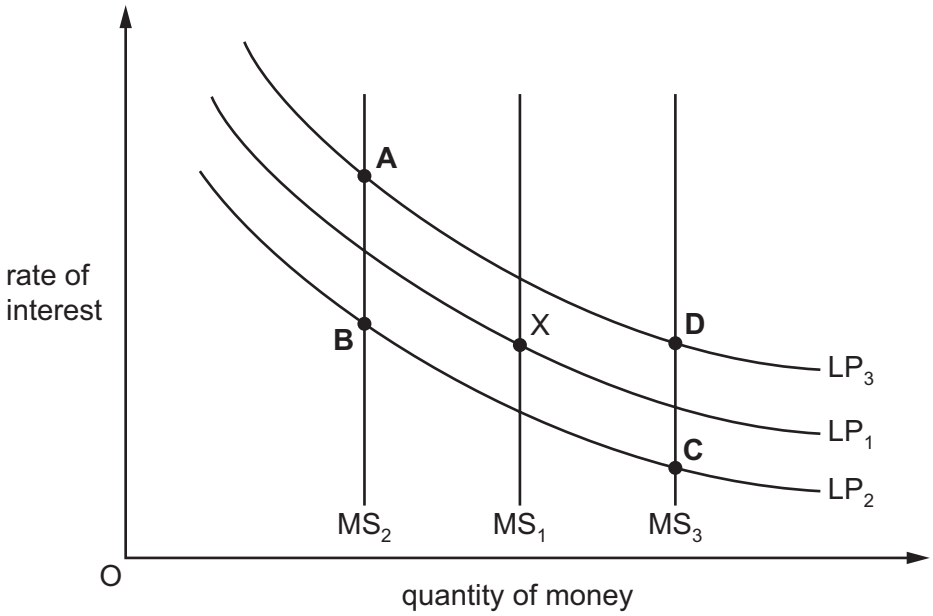
23 Assuming a constant income velocity of circulation of money, if real output grows by 2%, and the rate of growth of the money supply is 5%, what will be the approximate change in the price level?

A –3% **B** +3% **C** +5% **D** +7%

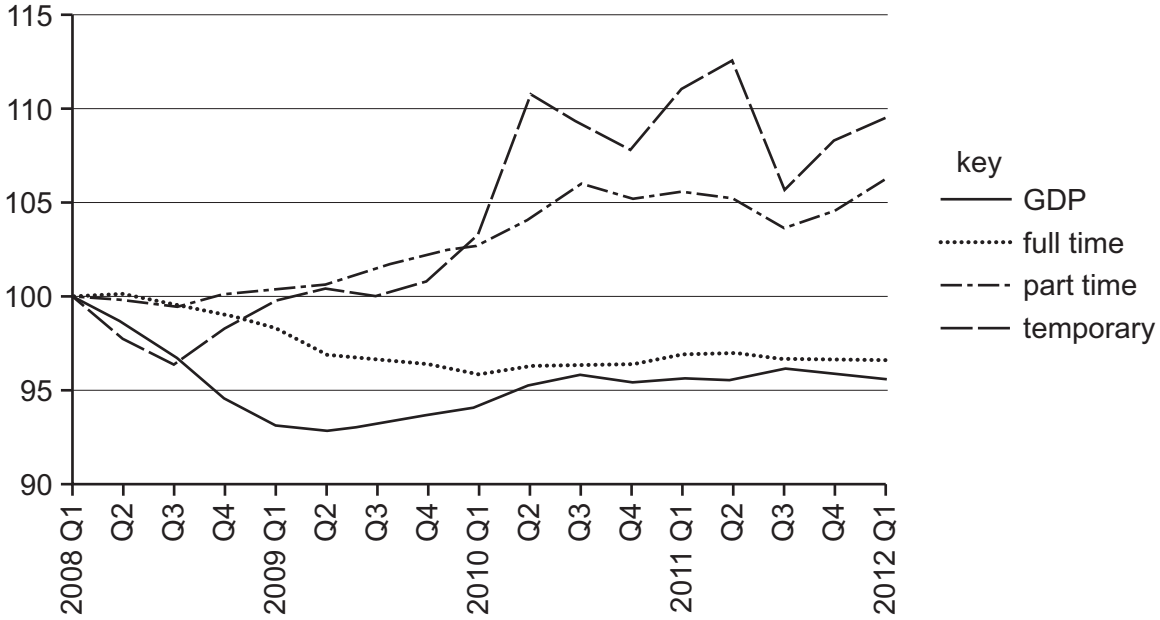
24 The diagram shows three different levels of the supply of money (MS) and three liquidity preference demand for money curves (LP). The initial equilibrium is at point X.

There is a decrease in the level of money income and at the same time there is an expansion in bank credit.

Which point could be the new equilibrium point?



25 The graph shows the changes (expressed as an index) in employment and in GDP in the United Kingdom between 2008 and 2012.



What can be concluded from the graph?

A The number in full-time jobs as a percentage of total employment fell over the period.

B The total number in employment increased over the period.

C There was a fall in the number unemployed over the period.

D There was an increase in GDP per worker over the period.

26 What is usually a characteristic of low income developing countries?

A an absence of government intervention in the economy

B low birth rates

C low tertiary sector output as a percentage of GDP

D zero tariffs on imports

27 Which combination of fiscal and monetary policy could be used to reduce both the level of unemployment and the government budget deficit in an economy?

	fiscal policy	monetary policy
A	contractionary	expansionary
B	contractionary	unchanged
C	expansionary	contractionary
D	unchanged	contractionary

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28 What is likely to result from foreign direct investment in developing economies?

A a reduction in local wage levels

B a reduction in tax revenues in developing economies

C a reduction in the range of consumer goods available to the local population

D a worsening of net income flows from investments

29 Which combination of changes is most likely to result in the short run in a fall in a country's inflation rate?

	exchange rate	indirect taxes
A	higher	higher
B	higher	lower
C	lower	higher
D	lower	lower

30 A country has a fixed exchange rate.

Which combination of circumstances would be most likely to cause the country's government to reduce taxation and lower interest rates?

A demand inflation and a balance of payments deficit

B demand inflation and low investment

C unemployment and a balance of payments surplus

D unemployment and imported inflation

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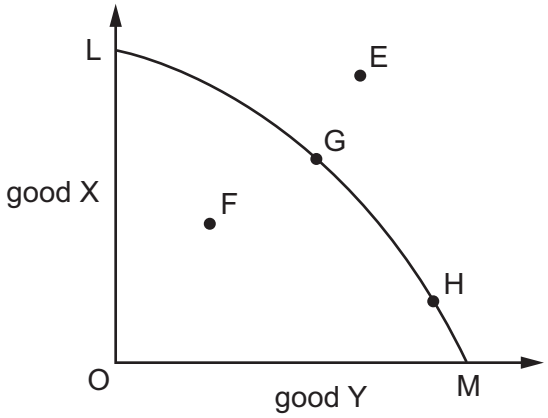
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1 In the diagram, LM is an economy's production possibility curve.



Which statement must be correct?

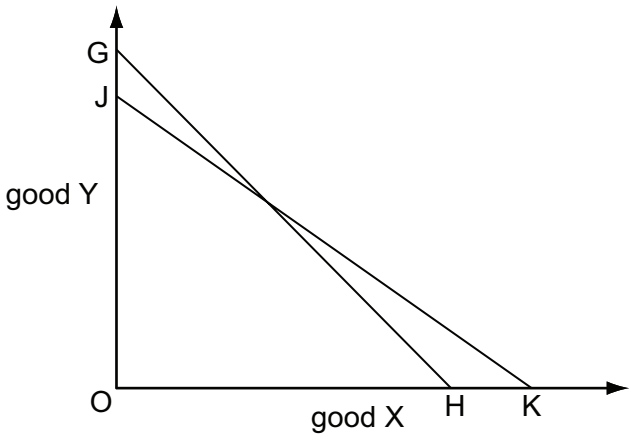
A F is productively inefficient.

B G and H are productively efficient but economically inefficient.

C Only E is economically efficient.

D Only G is productively efficient.

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



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

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

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3 The table shows the output of chairs at a factory when different numbers of workers are employed.

number of workers	1	2	3	4	5
number of chairs produced	6	17	27	32	30

Diminishing marginal returns to labour will set in when

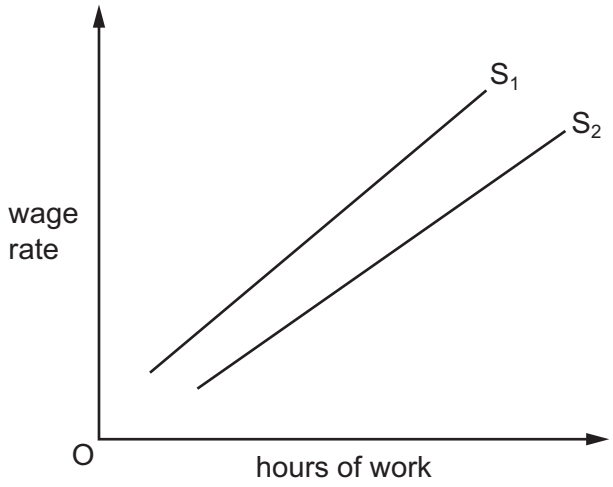
A the second worker is employed.

B the third worker is employed.

C the fourth worker is employed.

D the fifth worker is employed.

4 In the diagram S_1 is an individual worker's supply of labour curve.



What could cause the curve to shift from S_1 to S_2?

A a decrease in the hourly wage rate

B a decrease in work satisfaction

C a decrease in the opportunity cost of leisure

D a decreased preference for leisure

5 The table shows the marginal revenue product of labour schedule of a profit-maximising firm producing under conditions of perfect competition.

number of workers	1	2	3	4	5	6	7
marginal revenue product ($)	125	130	135	140	135	130	125

If the wage is $135, what is the maximum number of workers the firm will employ?

A 3 **B** 4 **C** 5 **D** 6

6 In 2004 union officials and businessmen in Argentina agreed to increase the minimum wage from 350 to 450 pesos.

In which circumstances would such a rise increase employment?

A Investment increases at a more rapid rate than consumption.

B Labour and product markets are competitive.

C The higher wage rate produces a proportionately greater rise in labour productivity.

D The minimum wage is set above the equilibrium level.

7 The table gives information about a firm's costs over a given range of output in the short run and in the long run.

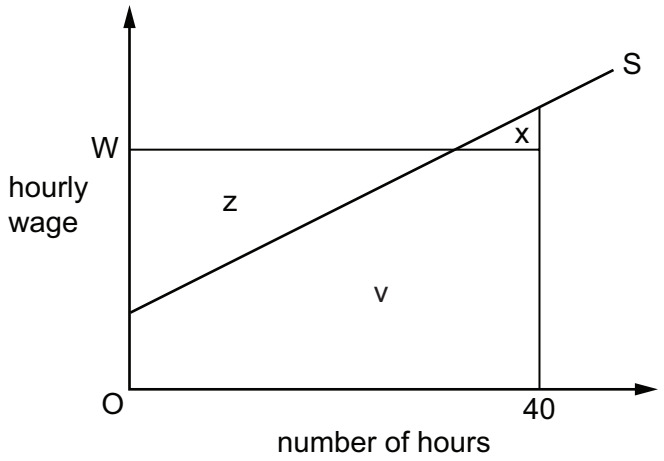
output (thousand)	21	22	23	24	25
short-run average cost ($)	20	19	18	17	16
long-run average cost ($)	12	13	14	15	16

Which conclusions can be drawn about the characteristics of production over this output range in the short run and in the long run?

	short run	long run
A	decreasing returns to scale	diminishing returns
B	economies of scale	diminishing returns
C	increasing returns	decreasing returns to scale
D	increasing returns	economies of scale

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



The hourly wage is W and the worker is required to work a standard 40-hour week.

Which area measures the minimum amount per week he would be willing to accept?

A v **B** v + x **C** v – x **D** z – x

9 The table shows a firm's marginal costs.

output	marginal cost ($)
1	40
2	30
3	20
4	30
5	40

The average fixed cost of producing 5 units is $6.

What is the total cost of producing 5 units?

A $46 **B** $70 **C** $190 **D** $230

10 What could explain why the proportion of total employment in an economy accounted for by small firms decreases?

A a trend towards the use of sub-contractors to produce specialised components

B growing technical economies of scale in manufacturing

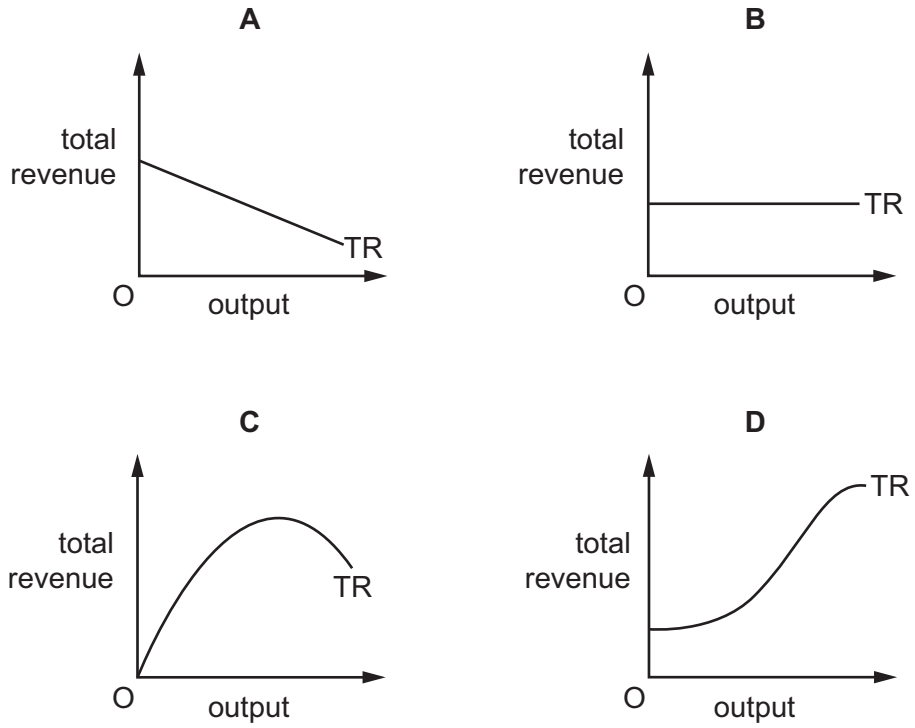
C growth of the service sector and a decline in manufacturing

D the opening up of specialist markets as real incomes rise

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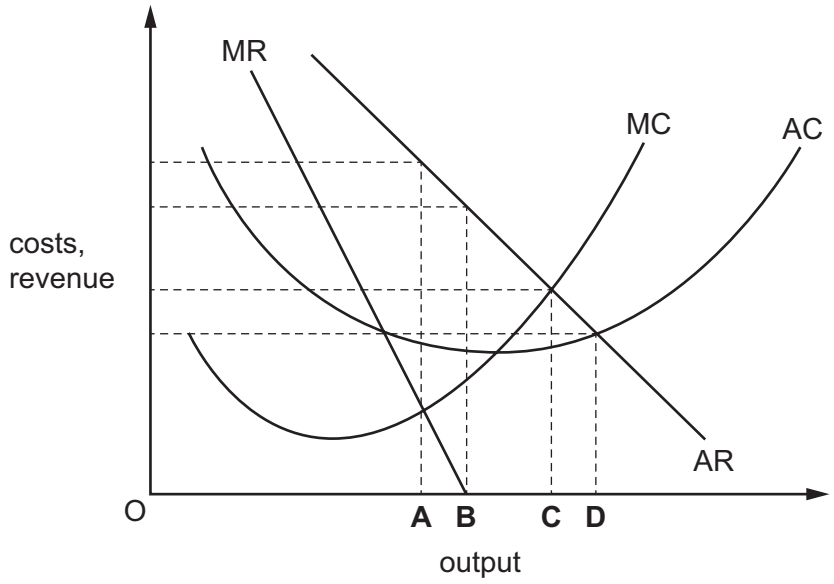
11 A monopolist faces a downward-sloping straight-line demand curve.

Which diagram shows his total revenue curve (TR)?



12 The diagram shows the cost and revenue curves of a monopolist.

Which output will the firm produce if its aim is to maximise sales revenue?



13 A country's government reduces the specific tax on packets of cigarettes.

What could explain why this leads to an increase in tax revenue from cigarette sales?

A Consumers switch to dearer brands.

B The demand for cigarettes is price-inelastic.

C The price of cigarettes falls by less than the reduction in tax.

D There is a reduction in illegal imports of cigarettes.

14 Which is **not** a policy designed to correct market failure?

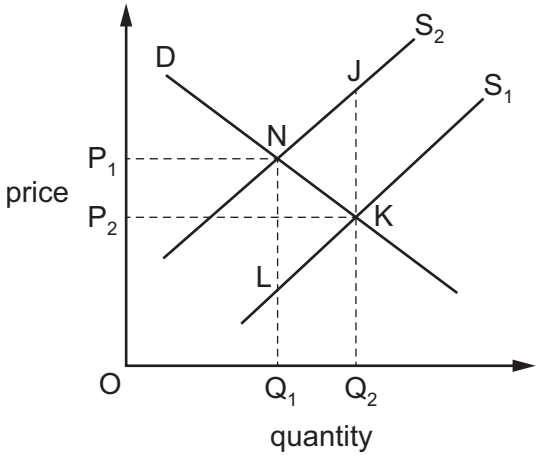
A competition policy

B free inoculation against infectious diseases

C minimum wage policy

D regulations to limit river pollution

15 In the diagram the imposition of a specific tax causes an industry's supply curve to shift from S_1 to S_2.



Which area measures the resulting deadweight loss to society given that there was no market failure initially?

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

16 Over a given period, money income in an economy increased by 6%. Over the same period, prices rose on average by 4%.

What can be deduced from this?

A Real income increased by 2%.

B The income velocity of circulation decreased by 2%.

C The money supply increased by 10%.

D The volume of output decreased by 2%.

17 A closed economy has a banking system consisting of a single bank. The bank operates with a cash ratio of 10%.

Customers deposit $20 000 in cash.

Assuming subsequent net withdrawals of cash from the banking system are zero, what is the maximum amount of loans that the bank can create?

A $2000 **B** $18 000 **C** $180 000 **D** $200 000

18 What will cause the level of investment to fall according to the accelerator model?

A a decrease in business confidence

B a decrease in the rate of growth of national income

C an increase in the price of capital equipment

D an increase in the rate of interest

19 In a closed economy with no government, consumption is 4/5 of income at all levels of income.

The present equilibrium level of income is $220 million.

The full employment level of income is $240 million.

By how much would investment have to increase to reach full employment?

A $2 million **B** $4 million **C** $16 million **D** $20 million

20 Other things being equal, what will result in a decrease in aggregate demand?

A a decrease in interest rates

B a decrease in the balance of trade deficit

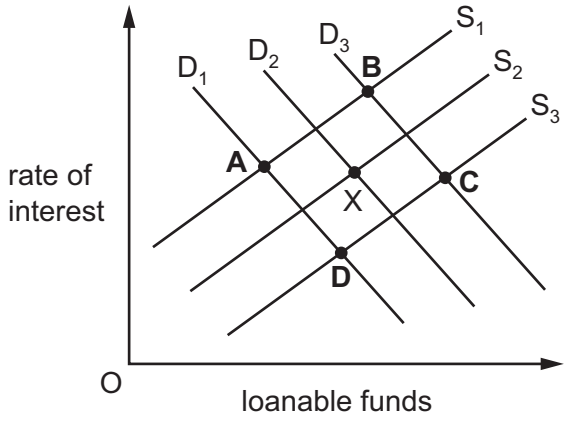
C a decrease in the government's budget deficit

D a decrease in the household saving ratio

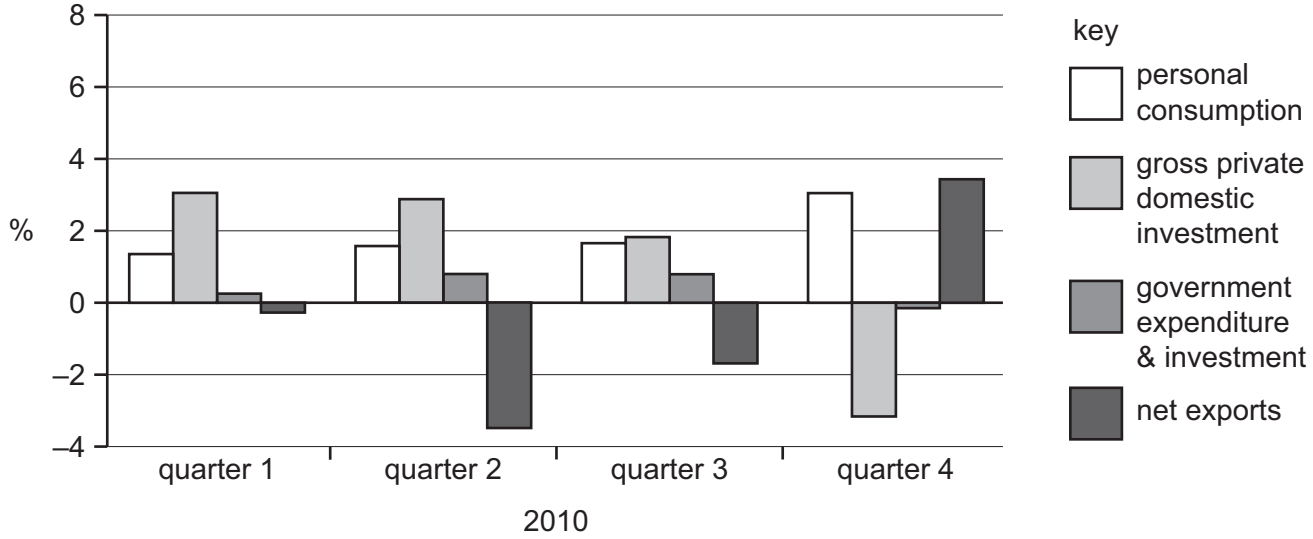
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21 The diagram shows the market for loanable funds. The market is in equilibrium at point X.

What could be the new equilibrium point if there was a decline in business confidence and an increase in bank lending?



22 The diagram shows the contribution of four components of aggregate demand to the change in US real GDP in the four quarters of 2010.



Which component made the greatest contribution and which component the least contribution to the positive growth in real GDP in 2010?

	greatest contribution	least contribution
A	gross private domestic investment	government expenditure and investment
B	gross private domestic investment	net exports
C	personal consumption	government expenditure and investment
D	personal consumption	net exports

23 An economic recession leads to an increase in unemployment.

Why might this cause a fall in an economy's long-term growth rate?

A It is impossible to regain consumption lost in recession.

B Rising unemployment is likely to raise real wage levels.

C Social attitudes become less accepting of unemployment.

D There will be a harmful effect on human capital.

24 The table shows the annual income thresholds per person used by the World Bank to classify countries according to their nominal Gross National Income (GNI) in 2000 and 2010.

	2000	2010
low income	$755 or less	$1005 or less
lower middle	$756 to $2995	$1006 to $3975
upper middle	$2996 to $9625	$3976 to $12 275
high income	$9266 or more	$12 276 or more

What could explain the changes recorded in the table?

A Income inequality between countries increased between 2000 and 2010.

B On average, real GNI in low income countries increased by roughly one third between 2000 and 2010.

C On average, world prices increased by roughly one third between 2000 and 2010.

D Some of the countries in the upper middle income category in 2000 were re-classified as high income countries in 2010.

25 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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26 It is often argued that the present rate of economic growth will soon lead to the exhaustion of reserves of material resources, such as minerals and oil.

What does this argument fail to take into account?

A the drawbacks of present GDP levels as an indicator of the 'happiness' of the population

B the effect of increasing resource prices on the discovery and exploitation of new reserves

C the right of future generations to enjoy present standards of living

D the role of education in economic development

27 What will be the impact of an increase in marginal tax rates?

A an increase in the propensity to save

B an increase in the value of the investment multiplier

C a strengthening of work incentives

D a strengthening in the operation of automatic stabilisers

28 A central bank increases interest rates in order to control inflation.

What is likely to increase as a result of this?

A firms' sales revenue

B investment expenditure

C net capital outflows

D the exchange rate

29 What is most likely to result from a devaluation of the £ sterling?

A an increase in foreign direct investment in the UK by global manufacturing firms

B an increase in the number of UK residents taking holidays abroad

C an increase in the number of UK students applying for places in North American universities

D an increase in the supply of foreign workers seeking temporary employment over the summer in the UK

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30 A fair trade scheme encourages consumers in developed countries to buy food produced by farming cooperatives in developing countries at a higher price than that charged by commercial firms.

Why might this be harmful to economic development?

A It will cause a worsening in the terms of trade of developing economies.

B It will reduce the amount of government aid provided to developing economies.

C It will reduce the prices subsistence farmers receive for their produce.

D It will slow the process of economic diversification in developing economies.

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ECONOMICS **9708/33**

Paper 3 Multiple Choice (Supplement) **May/June 2014**

1 hour

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

* 0 2 9 9 7 7 6 2 6 0 *

READ THESE INSTRUCTIONS FIRST

Write in soft pencil.
Do not use staples, paper clips, 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.
DO **NOT** WRITE IN ANY BARCODES.

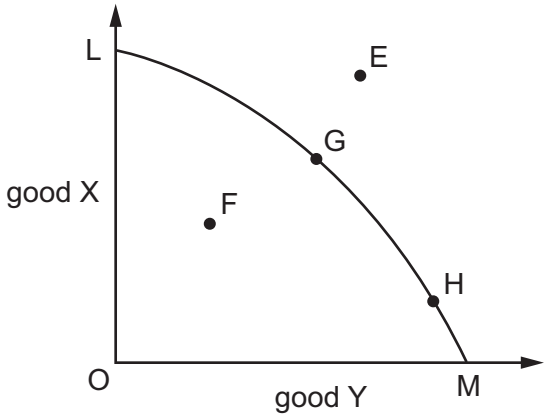
There are **thirty** questions on this paper. Answer **all** questions. For each question there are four possible answers **A**, **B**, **C** and **D**.
Choose the **one** you consider correct and record your choice in **soft pencil** on the separate Answer Sheet.

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.

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1 In the diagram, LM is an economy's production possibility curve.



Which statement is correct?

A E only is attainable.

B F is economically efficient.

C G may be economically efficient but is not productively efficient.

D H is productively efficient but may not be economically efficient.

2 A consumer seeks to maximise his utility.

Up to what point should he continue to consume each good?

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

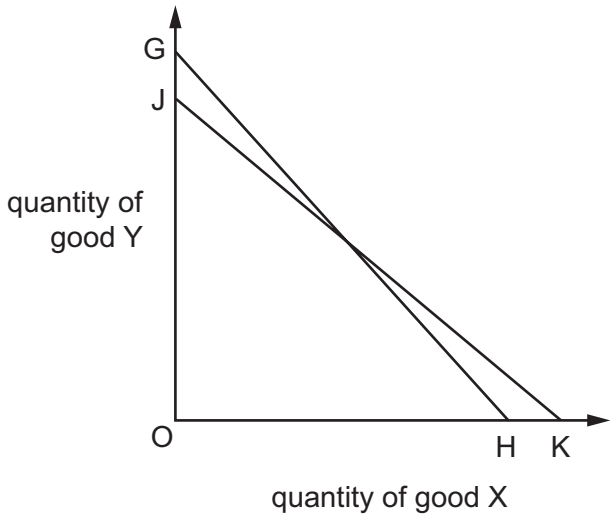
B until the marginal utility from each good is the same

C until the marginal utility from each good reaches a maximum

D until the marginal utility from each good is zero

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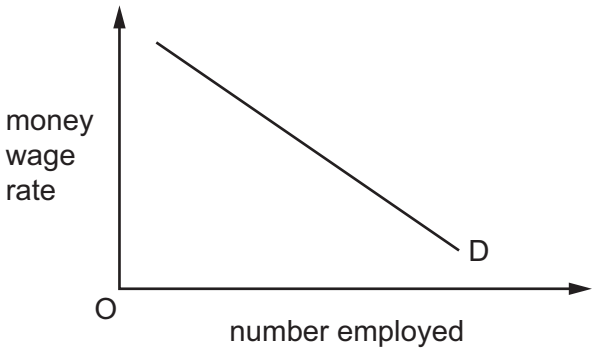
3 In the diagram a consumer's initial budget line is GH.



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

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

4 The diagram shows the demand curve for labour.



What could cause the demand curve to shift to the right?

A a decrease in labour productivity

B an increase in immigration

C an increase in the average price level

D a fall in the money wage rate

5 A firm currently employs 100 workers at a daily wage rate of $500 per worker.

It calculates that the marginal cost per day of hiring an additional worker would be $702.

By how much would the daily wage rate per worker have to be increased to attract an extra worker?

A $2 **B** $70.20 **C** $202 **D** $702

6 A trade union seeks to increase the wages that a firm pays to its workers while at the same time avoiding any job losses.

What will weaken the union's negotiating position?

A Capital and labour are close substitutes.

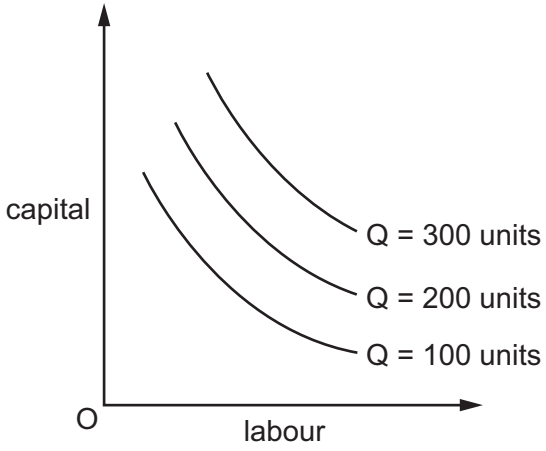
B The firm enjoys monopsony power in a labour market.

C The demand for the good produced by the firm is price-inelastic.

D The supply of labour to the firm is highly inelastic.

7 A firm employs two factors of production, capital and labour.

The curves in the diagram show the different combinations of capital and labour a firm needs to produce given levels of output.



What does the diagram show?

A the firm's long-run production function

B the firm's long-run total cost function

C the firm's short-run production function

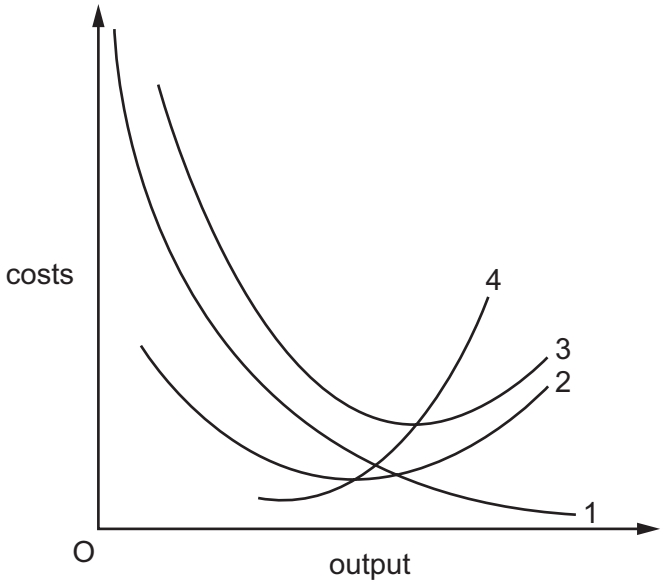
D the firm's short-run total cost function

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8 What will be the effect on price and output of a subsidy on each item produced by a profit maximising monopolist?

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

9 The diagram shows the short-run cost curves of a firm.



Which statement is correct?

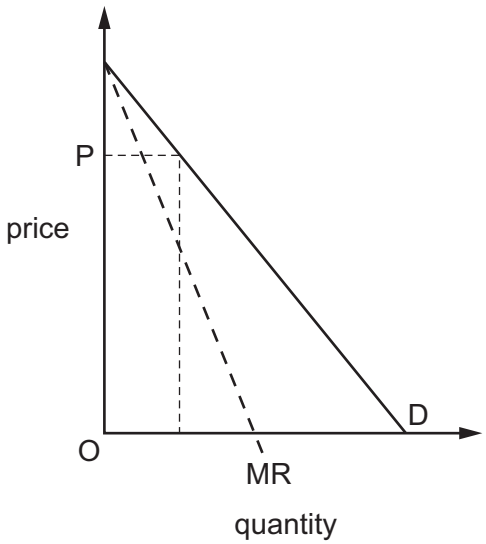
A Curve 1 is the marginal cost curve.

B Curve 2 is the average variable cost curve.

C Curve 3 is the average fixed cost curve.

D Curve 4 is the average total cost curve.

10 The diagram shows a firm's demand curve and its marginal revenue curve.



What is the approximate price elasticity of demand at price P?

A 0.25 **B** 0.5 **C** 1 **D** 3

11 What determines the contestability of a market?

A the costs of entry and exit

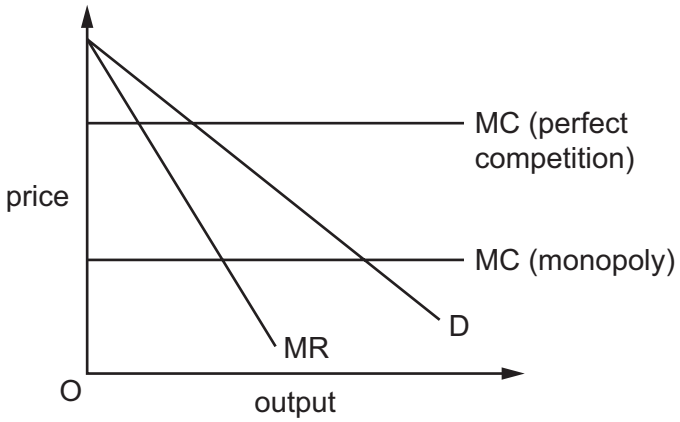
B the degree of differentiation of the product

C the number of firms in the industry

D the price elasticity of demand for the product

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12 The diagram shows the change in an industry's cost of production when it moves from perfect competition to monopoly. There is no change in the demand for the industry's product.



What effect will the change in market structure in this industry have on price, output and consumer surplus?

	price	output	consumer surplus
A	increase	increase	reduce
B	increase	reduce	reduce
C	reduce	increase	increase
D	reduce	reduce	increase

13 A firm decides to maximise sales revenue rather than profits.

What is likely to be one of the consequences of this decision?

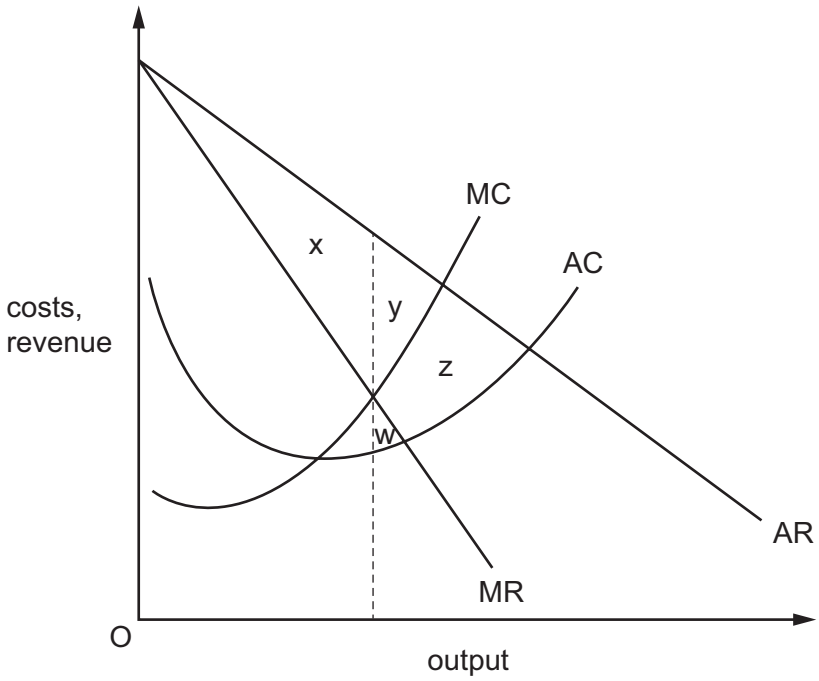
A an increase in the price of the firm's product

B a reduction in the price of the firm's shares

C a reduction in the firm's market share

D a reduction in the number employed by the firm

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



Which area measures the deadweight loss arising from the exercise of monopoly power?

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

15 Income inequality can be measured by the Gini coefficient. On a scale of 0 to 100, the higher the value the greater the inequality.

The table below shows three Gini coefficient values for four OECD countries. The first is from wages, the second when government welfare payments are included and the third when welfare payments and government health and education spending are included.

In which country did welfare payments make the greatest contribution to income redistribution?

	inequality after wages from work	inequality after wages and welfare payments	inequality after wages, welfare payments and health and education spending
A	36.8	25.9	18.1
B	40.5	31.3	24.8
C	40.6	26.1	22.3
D	45.3	37.0	30.3

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16 What is an advantage of means-tested benefits over universal benefits?

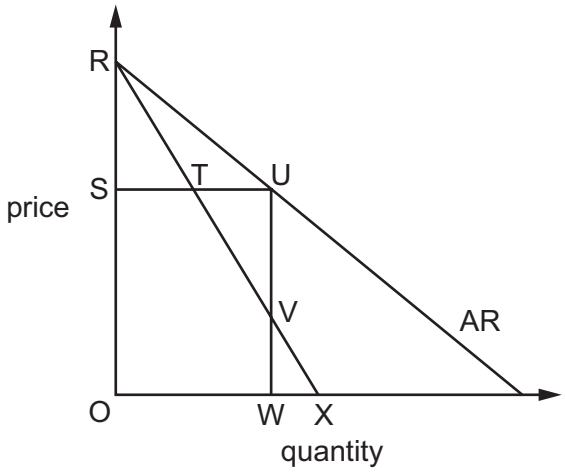
A an increase in the percentage of those who take up benefits for which they are eligible

B a reduction in the rate at which benefits are withdrawn as households' incomes increase

C a reduction in the poverty trap

D the targeting of benefits on those in greatest need

17 A monopolist has a marginal revenue curve shown in the diagram by RTVX.



What will be the monopolist's new marginal revenue curve if the government introduces a maximum price, OS?

A RTVW **B** RUVX **C** STVX **D** SUVX

18 The information in the table is taken from a country's national income accounts.

	$ million
national income	1000
consumer spending	750
investment spending	100
government spending on goods and services	170
taxation	110
imports	120

What is the value of exports?

A $100 million **B** $120 million **C** $190 million **D** $210 million

19 The table shows a government's expenditure and its tax revenues over the period 2010-2013.

	2010	2011	2012	2013
government expenditure ($ billion)	250	260	280	280
government tax revenue ($ billion)	260	260	270	275

What impact did the changes in the government's fiscal balance have on the national debt and on aggregate expenditure?

		impact on national debt	impact on aggregate expenditure
A	2010-2011	no change	no change
B	2011-2012	increase	raise
C	2012-2013	decrease	lower
D	2012-2013	increase	raise

20 What is **not** a leakage from the circular flow of income?

A expenditure on foreign goods

B indirect taxes

C undistributed profits

D unemployment benefits

21 In a closed economy with no government, an increase in investment of $100 million results in an increase in **consumption** of $300 million.

What is the marginal propensity to consume?

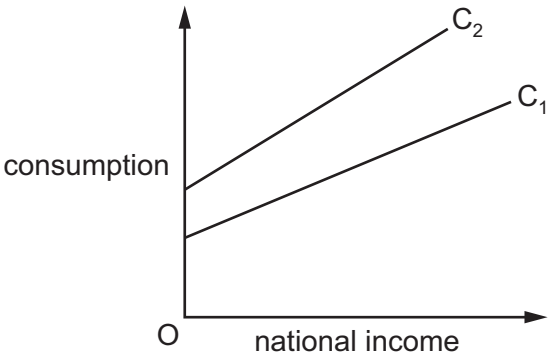
A $\frac{1}{5}$ **B** $\frac{1}{4}$ **C** $\frac{3}{4}$ **D** $\frac{4}{5}$

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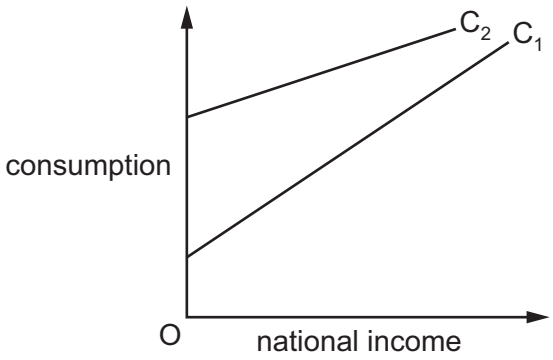
22 A government increases the rate of unemployment benefit.

Which diagram shows the resulting shift (from C_1 to C_2) in the consumption function?

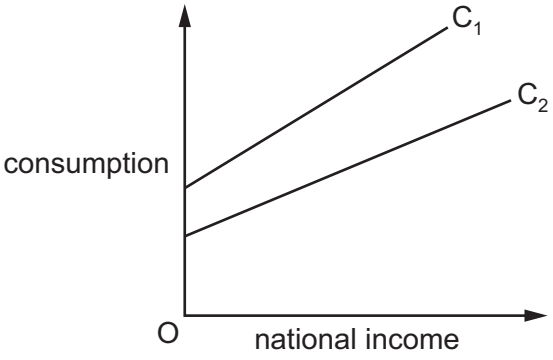
A



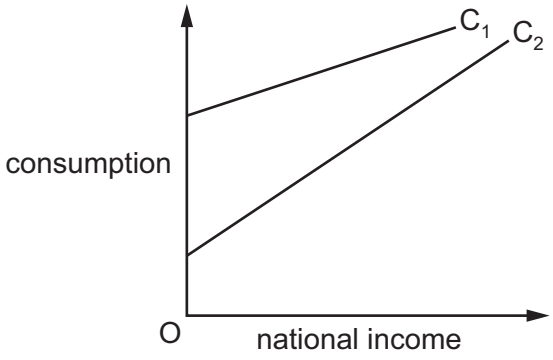
B



C



D



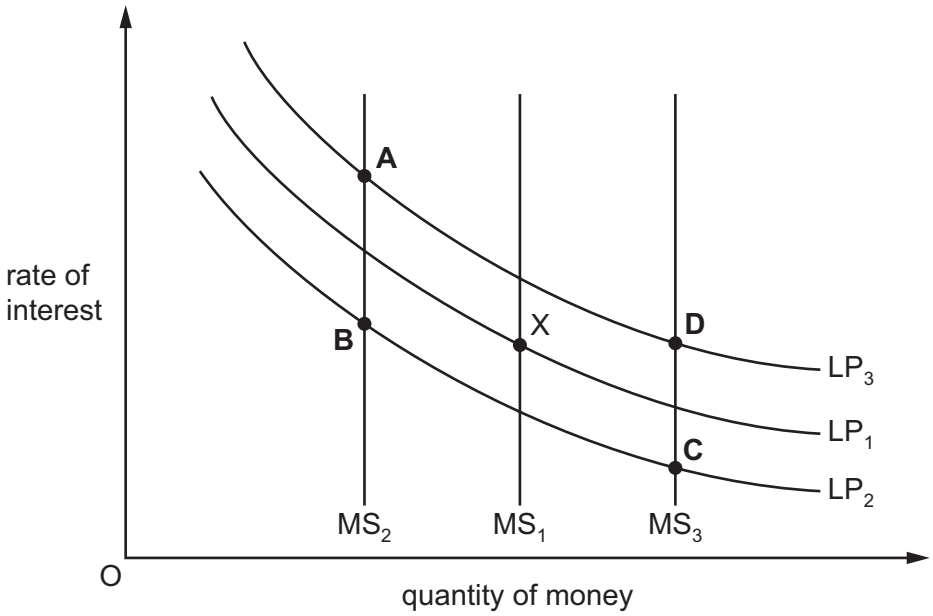
23 Assuming a constant income velocity of circulation of money, if real output grows by 2%, and the rate of growth of the money supply is 5%, what will be the approximate change in the price level?

A –3% **B** +3% **C** +5% **D** +7%

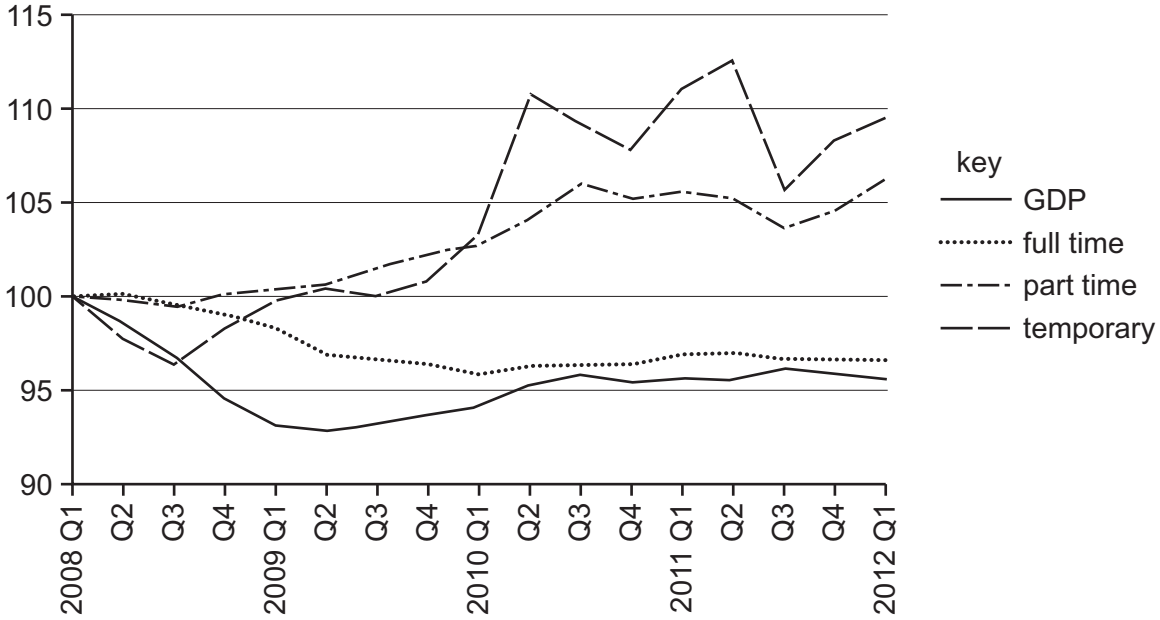
24 The diagram shows three different levels of the supply of money (MS) and three liquidity preference demand for money curves (LP). The initial equilibrium is at point X.

There is a decrease in the level of money income and at the same time there is an expansion in bank credit.

Which point could be the new equilibrium point?



25 The graph shows the changes (expressed as an index) in employment and in GDP in the United Kingdom between 2008 and 2012.



What can be concluded from the graph?

A The number in full-time jobs as a percentage of total employment fell over the period.

B The total number in employment increased over the period.

C There was a fall in the number unemployed over the period.

D There was an increase in GDP per worker over the period.

26 What is usually a characteristic of low income developing countries?

A an absence of government intervention in the economy

B low birth rates

C low tertiary sector output as a percentage of GDP

D zero tariffs on imports

27 Which combination of fiscal and monetary policy could be used to reduce both the level of unemployment and the government budget deficit in an economy?

	fiscal policy	monetary policy
A	contractionary	expansionary
B	contractionary	unchanged
C	expansionary	contractionary
D	unchanged	contractionary

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28 What is likely to result from foreign direct investment in developing economies?

A a reduction in local wage levels

B a reduction in tax revenues in developing economies

C a reduction in the range of consumer goods available to the local population

D a worsening of net income flows from investments

29 Which combination of changes is most likely to result in the short run in a fall in a country's inflation rate?

	exchange rate	indirect taxes
A	higher	higher
B	higher	lower
C	lower	higher
D	lower	lower

30 A country has a fixed exchange rate.

Which combination of circumstances would be most likely to cause the country's government to reduce taxation and lower interest rates?

A demand inflation and a balance of payments deficit

B demand inflation and low investment

C unemployment and a balance of payments surplus

D unemployment and imported inflation

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