Cambridge International A Level

Cambridge International Examinations
Cambridge International Advanced Level

ECONOMICS **9708/31**

Paper 3 Multiple Choice (Supplement) **May/June 2015**

1 hour

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

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This document consists of **13** printed pages and **3** blank pages.

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1 An economy reallocates resources and moves along its production possibility frontier.

It increases production of necessity goods and reduces production of luxury goods.

The marginal utility of the consumers of the additional necessity goods produced is greater than the marginal utility of the consumers of the luxury goods that are no longer produced.

What is the effect on the economic efficiency of the economy?

	productive efficiency	allocative efficiency
A	increases	increases
B	increases	unchanged
C	unchanged	increases
D	unchanged	unchanged

2 A household which spends all of its income on bananas and apples makes the following purchases.

fruit	price per unit ($)
bananas	2.50
apples	1.00

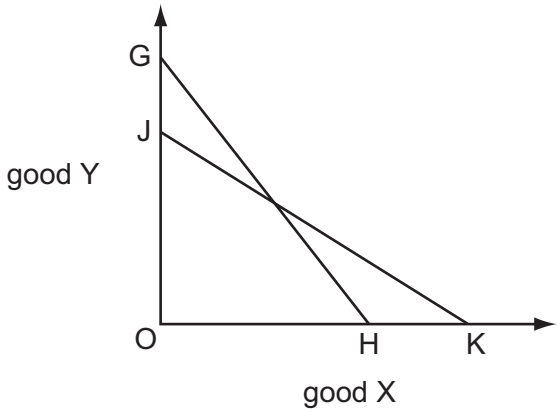
The household derives twice as much utility from the last unit of bananas consumed as from the last unit of apples consumed.

What should the household do to maximise utility from the consumption of these fruits?

	consumption of bananas	consumption of apples
A	decrease	increase
B	increase	decrease
C	no change	decrease
D	no change	increase

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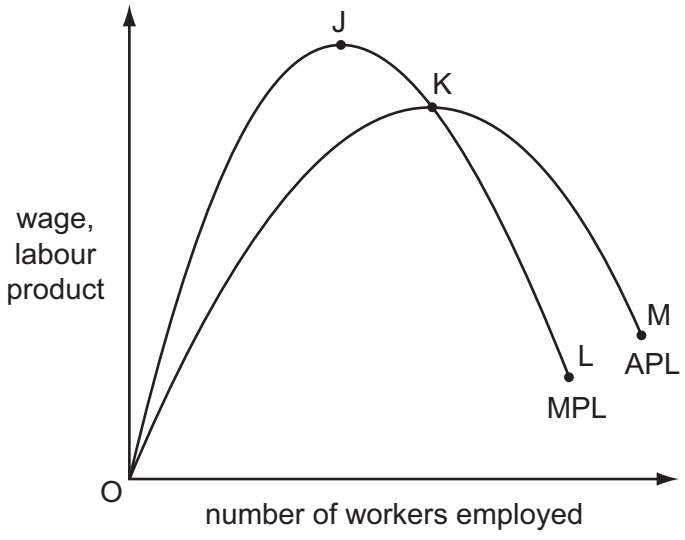
3 The curve JK in the diagram is a consumer's initial budget line.



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

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

Which segment of the curves represents the firm's demand for labour curve?

A OJ **B** JK **C** KL **D** KM

5 The table shows the main characteristics of employment in two alternative occupations.

	occupation X	occupation Y
average annual wage	$80 000	$100 000
number of weeks annual leave	10 weeks	5 weeks
average length of working week	44 hours	48 hours
job security	low	high
length of training course to obtain job qualification	2 years	1 year

What can definitely be deduced from the table?

A Occupation Y has greater non-financial advantages than occupation X.

B There will be more competition for places on training courses to enter occupation X than occupation Y.

C Those who choose occupation X attach more importance to leisure activities than those who choose occupation Y.

D Those who choose occupation Y attach greater importance to job security than those who choose occupation X.

6 A trade union seeks to increase the wages a firm pays to its workers while at the same time preserving jobs.

What will strengthen the union's negotiating position?

A Capital and labour are close substitutes.

B The demand for the good produced by the firm is price elastic.

C The supply of labour to the firm is perfectly elastic.

D The trade union operates in a monopsonistic labour market.

7 When a firm increases all its inputs by 300%, its output increases by 400%.

What does this illustrate?

A diseconomies of scale

B increasing returns to scale

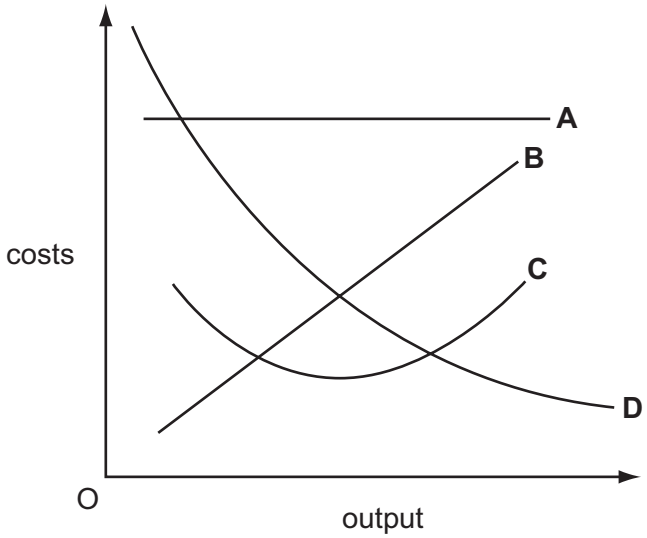
C the law of diminishing returns

D the law of variable proportions

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8 The average variable costs of a firm are constant over the relevant range of output.

Assuming that fixed costs are incurred, which curve on the diagram could be the firm's average total cost curve over this range?



9 Which is an example of an external diseconomy?

A difficulties in coordinating activities in a large organisation

B difficulties in motivating workers in a large organisation

C higher transport costs as a firm's market expands

D increased traffic congestion as industries expand

10 What makes it easier for a small firm to compete against large firms in the same industry?

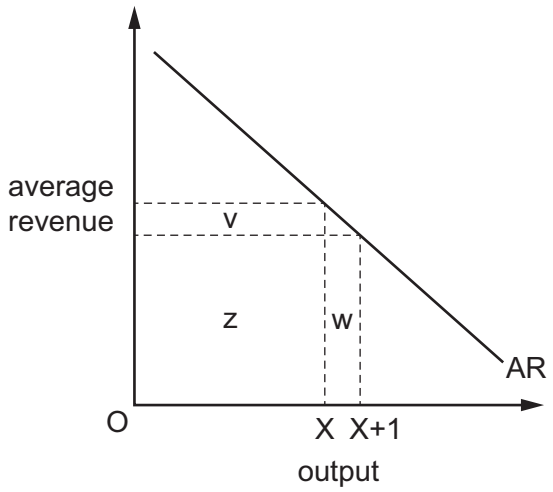
A The nature of the industry's product is highly standardised.

B The product specification demanded by each customer is different.

C There are significant barriers facing potential new entrants.

D Transport costs are low relative to the value of the product.

11 The diagram shows a firm's average revenue (AR) curve.



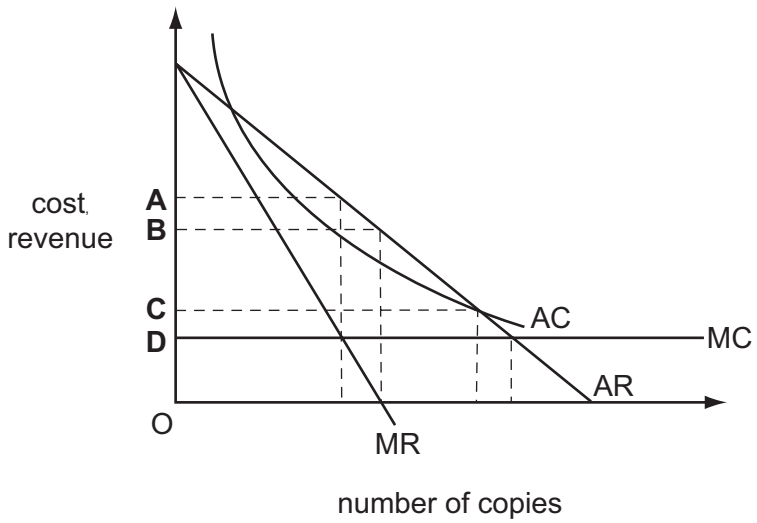
The firm currently produces output OX.

Which area(s) will measure the firm's marginal revenue if it produces an additional unit of output?

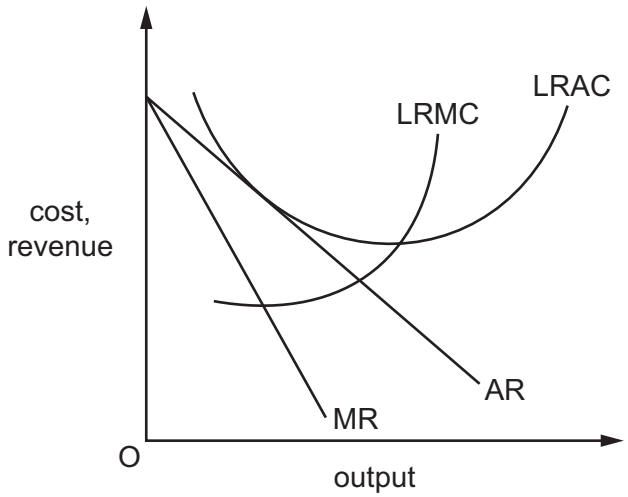
A w + v **B** w + z **C** w – v **D** w only

12 The diagram shows the cost and revenue curves for the production of a textbook.

Which price would maximise the publisher's revenue from the book?



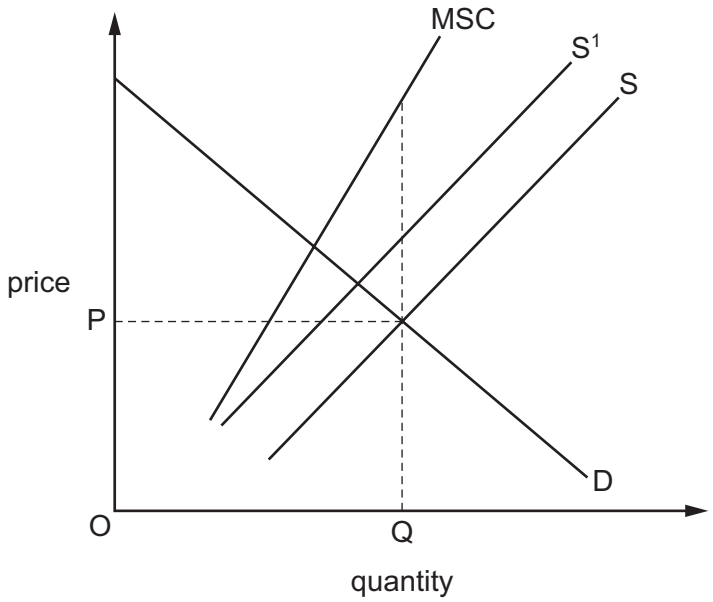
13 The diagram shows the cost and revenue curves of a monopolistically competitive firm in long-run equilibrium.



Which statements correctly describe the performance of this firm?

	the firm is operating with excess capacity	the firm is fully exploiting available economies of scale
A	no	no
B	no	yes
C	yes	yes
D	yes	no

14 In the diagram, D is the demand curve for cigarettes, S is the supply curve and MSC is the marginal social cost curve.



The introduction of a specific tax on cigarettes causes the supply curve to shift to S^1.

What are likely to be the impacts of the tax on economic efficiency and the tax system?

	economic efficiency	tax system
A	improves	less regressive
B	improves	more regressive
C	worsens	less regressive
D	worsens	more regressive

15 Which combination of policy changes is **most** likely to redistribute income from the richest households to the poorest households in an economy?

	excise duties	means-tested benefits	universal benefits
A	decrease	increase	decrease
B	decrease	increase	increase
C	increase	decrease	increase
D	increase	decrease	decrease

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16 In order to reduce milk production, all producers are given a quota which limits the amount of milk each producer is allowed to produce.

Initially, the quotas cannot be traded.

What will be the effect on the total volume of milk production and on the overall profits of milk producers if they are allowed to trade the quotas among themselves?

	effect on total volume	effect on profits
A	increase	increase
B	increase	decrease
C	unchanged	increase
D	unchanged	decrease

17 During a year, a country's national income in money terms increased by 5%, prices increased by 4% and the total population increased by 2%.

What was the approximate change in real income per head?

A a decrease of 1%

B a decrease of 2%

C an increase of 1%

D an increase of 2%

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

A a balance of trade deficit

B a government budget deficit

C household saving

D the retained profits of private companies

19 In a closed economy with no government sector, investment is increased by $100 million and real income increases by $500 million.

What is the marginal propensity to consume?

A 0.2 **B** 0.4 **C** 0.8 **D** 5.0

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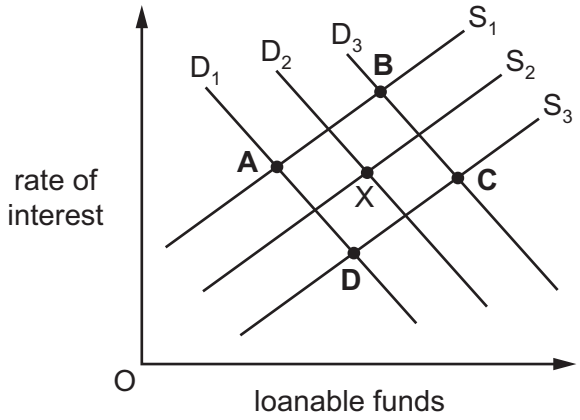
20 The income velocity of circulation is equal to 2.0.

If the rate of growth of the money supply is 8% and the average price level increases by 4%, what will be the change in real output (transactions)?

A +4% **B** +8% **C** +12% **D** +16%

21 The diagram shows the demand curves and supply curves of loanable funds. The market is in equilibrium at point X.

What would be the new equilibrium point if there were an increase in business confidence and a reduction in the propensity to save?



22 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

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

A an appreciation in the country's currency

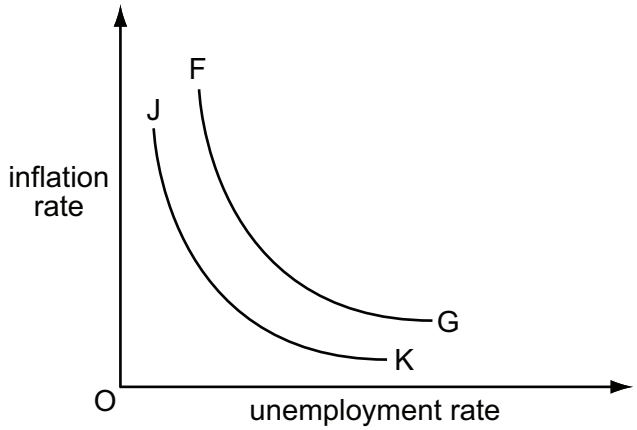
B an improvement in the average citizen's quality of life

C an improvement in the country's trade balance

D an increase in the country's real GDP

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



What would cause the curve FG to shift to JK?

A a lower exchange rate

B a lower expected rate of inflation

C an increase in government expenditure

D a rise in the level of employment

25 What is the **best** measure of the economic cost of an increase in unemployment?

A the additional social security benefits paid plus the loss of tax revenue from newly unemployed workers

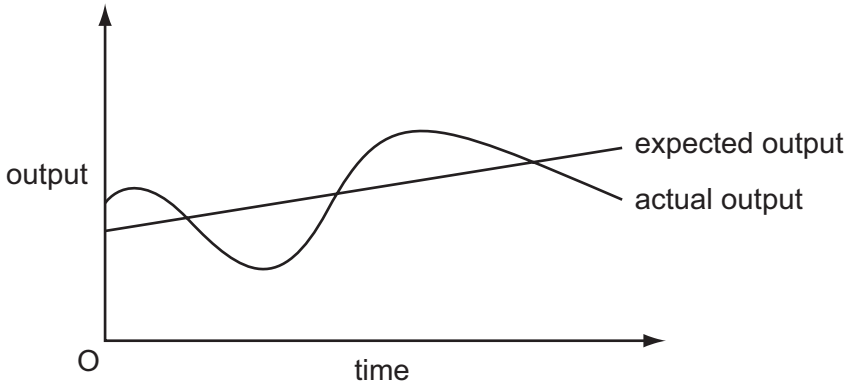
B the loss of potential exports

C the money value of the additional social security benefits paid

D the output the unemployed workers could have produced

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26 The diagram shows the actual output and expected output of an economy.



What would help to reduce the divergence of actual output from expected output?

A a balanced budget

B a stable exchange rate

C automatic stabilisers

D stable interest rates

27 In an economy with a fixed exchange rate, which combination of policies is likely to be most effective at tackling both a growing current account deficit on the balance of payments and rising inflationary pressure?

A a budget deficit and higher interest rates

B a budget deficit and lower interest rates

C a budget surplus and higher interest rates

D a budget surplus and lower interest rates

28 The table gives details of a government's budget over two years.

	2012 / 13 (US$ millions)	2013 / 14 (US$ millions)
government revenue	2 630 000	3 730 000
government spending	3 000 300	3 770 000

What happened to government finances between 2012 / 13 and 2013 / 14?

A The annual budget deficit rose.

B The annual budget surplus fell.

C The national debt fell.

D The national debt rose.

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29 In an open economy, what is most likely to cause the money supply to fall?

A a balance of payments surplus

B an increase in the ratio of cash reserves to total deposits in the commercial banking sector

C central bank bond purchases from the non-bank private sector

D government borrowing from the commercial banking sector

30 A government responds to a fall in national income by increasing its spending. It finances the increased spending by issuing bonds to the non-bank private sector.

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

A a crowding out of private investment

B a decreased balance of trade deficit

C a reduction in the money supply

D an increase in the cash reserves of the commercial banks

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1 What need **not** pose a potential threat to allocative efficiency in a market economy?

A externalities

B differentiated products

C monopolistic elements

D perfect knowledge

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

3 For the purposes of measuring the income effect of a change in the price of a good, what is **not** held constant?

A consumer preferences

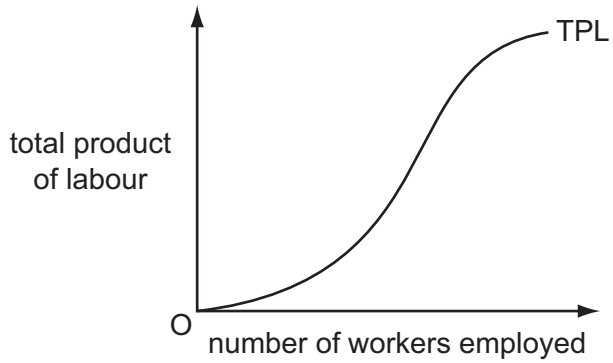
B relative prices

C the consumer's money income

D the consumer's real income

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4 The diagram shows the total product of labour (TPL) curve for a firm whose only variable factor input is labour.



What explains the shape of the curve?

A diminishing marginal disutility of work

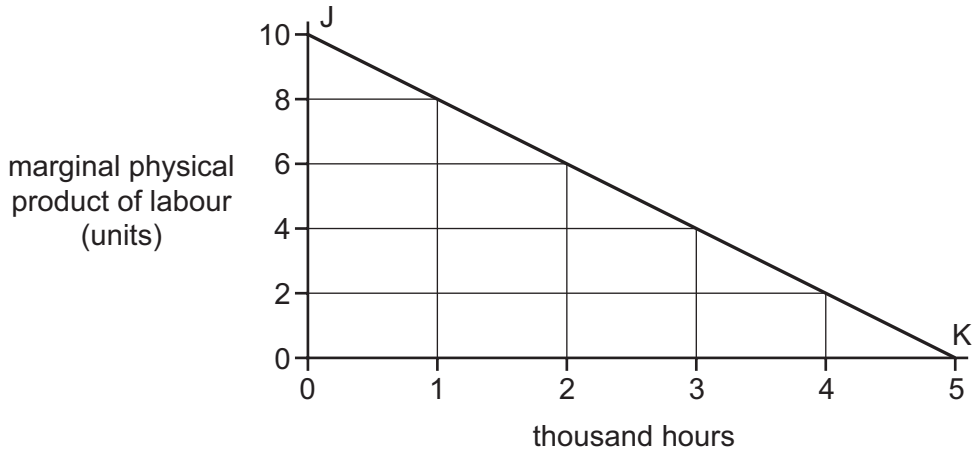
B increasing marginal disutility of work

C technical diseconomies of scale

D the law of variable proportions

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 hours worked:

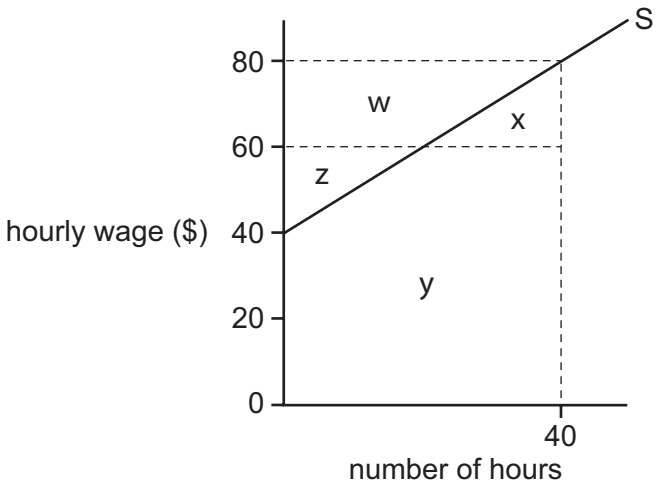


When the price of the product is $1.60, the firm uses 3000 hours of labour.

What is the hourly wage?

A $0.40 **B** $2.40 **C** $5.60 **D** $6.40

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



He is offered a job which would require him to work a standard 40-hour week.

Which area measures the lowest amount he would have to be paid per week to get him to accept this job offer?

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

7 What relationship does a firm's long-run production function describe?

A the firm's output and the quantities of factor inputs employed

B the firm's long-run average cost of production and the level of output

C the firm's long-run average cost of production and the quantities of factor inputs employed

D the prices of factor inputs and the quantities of factor inputs employed

8 The table shows a firm's total and marginal costs.

output	total cost ($)	marginal cost ($)
1	340	40
2	375	35
3	400	25
4	435	35
5	475	40

What is the average fixed cost of producing 6 units?

A $50 **B** $60 **C** $180 **D** $300

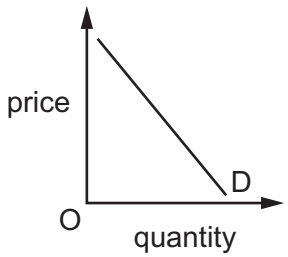
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9 A firm experiences external diseconomies of scale and decreasing returns to scale.

How would these changes be illustrated on a cost curve diagram?

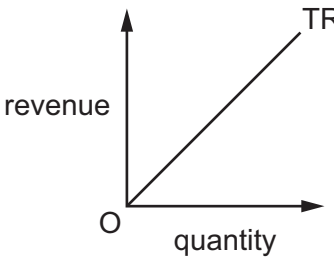
	shift in long-run average cost curve	movement along long-run average cost curve
A	downward	downward
B	downward	upward
C	upward	downward
D	upward	upward

10 The diagram shows the demand curve for a firm's product.

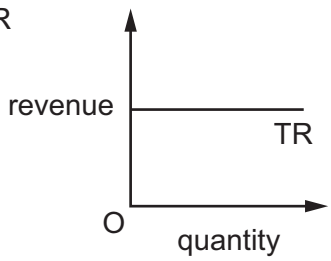


Which diagram depicts the shape of the firm's corresponding total revenue (TR) curve?

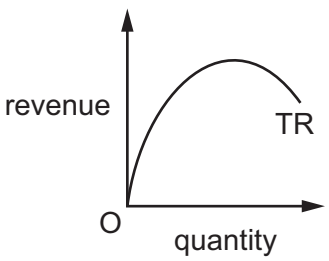
A



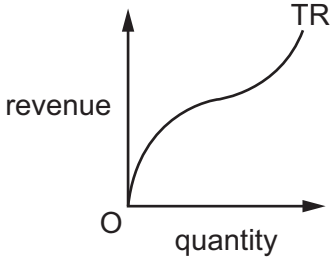
B



C



D



11 The firms in an industry all produce a homogeneous product, but each firm is able to influence the price it charges for its own product.

In which market structure do the firms operate?

A perfect competition

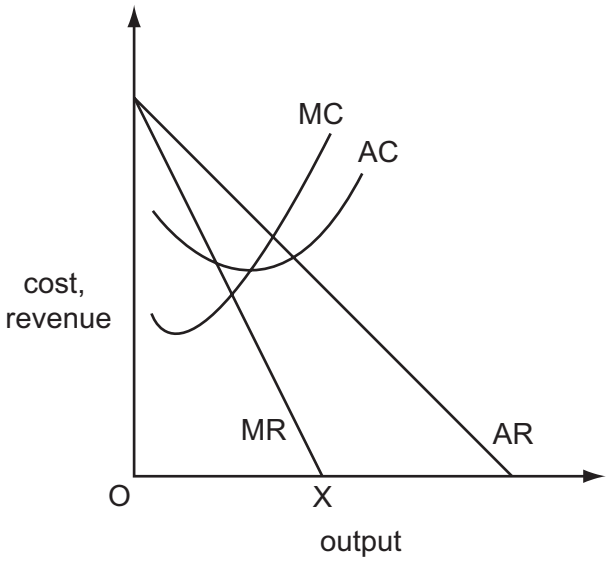
B monopolistic competition

C oligopoly

D monopoly

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



What is the firm's objective if it produces output OX?

A to achieve normal profit

B to maximise profit

C to maximise total revenue

D to minimise average cost

13 The table shows information about a profit-maximising firm.

price per unit	$1.70
fixed costs	$10 000
variable costs per unit	$1.75

What can be concluded about the firm's behaviour?

A It should close down immediately because it is not covering its average costs.

B It should close down immediately because it is not covering its variable costs.

C It should continue production in the long-run because it is covering its total costs.

D It should continue production in the short-run because it is covering its fixed costs.

14 When will a society have achieved an equitable distribution of income?

A when all individuals have equal job opportunities

B when all workers are paid wages equal to their marginal value product

C when the incomes within the society are equally distributed

D when the society believes that the distribution of income is fair

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15 The government introduces a minimum wage above the equilibrium market wage rate.

How will this affect low-paid workers?

A All those initially in employment will receive the new guaranteed minimum wage.

B Fewer of those not already in employment will enter the labour force.

C There will be an increase in the number of low-paid workers in employment.

D Some low-paid workers will lose their job.

16 A country's steel producers are members of a cartel. Each member is allocated a production quota and initially produces the maximum allowed under its quota.

What will be the effect on productive efficiency and on the industry's profits if the producers are allowed to trade the quotas amongst themselves?

	effect on productive efficiency	effect on profits
A	improvement	increase
B	improvement	no change
C	no change	increase
D	no change	no change

17 Which government policy would **not** be classified as regulation?

A bans on heroin and cocaine consumption

B compulsory wearing of seatbelts in cars and coaches

C licences for the extraction of water from lakes and rivers

D taxation of cigarettes and tobacco products

18 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.

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19 Which is **not** an injection into a country's circular flow of national income?

A inward direct investment by multinational corporations

B private gross domestic fixed capital formation

C the sale of government bonds to members of the public

D wages paid to civil servants

20 The national income is initially in equilibrium.

If there is an increase in exports, which change of equivalent value will restore national income to its initial equilibrium level?

A a decrease in imports

B a decrease in investment

C an increase in government expenditure on goods and services

D a reduction in taxation

21 In a closed economy with no government, investment increases by $400.

At the new equilibrium level of income, consumption has increased by $1200.

What is the value of the investment multiplier?

A 2 **B** 3 **C** 4 **D** 8

22 Assuming a constant income velocity of circulation of money, if the price level increases by 5% and the money supply grows by 2%, what will be the approximate change in real output (transactions)?

A –3% **B** –2.5% **C** +3% **D** +7%

23 Why will an inflationary process be brought to a halt if the money supply is held constant?

A Consumption will decrease as money incomes decline.

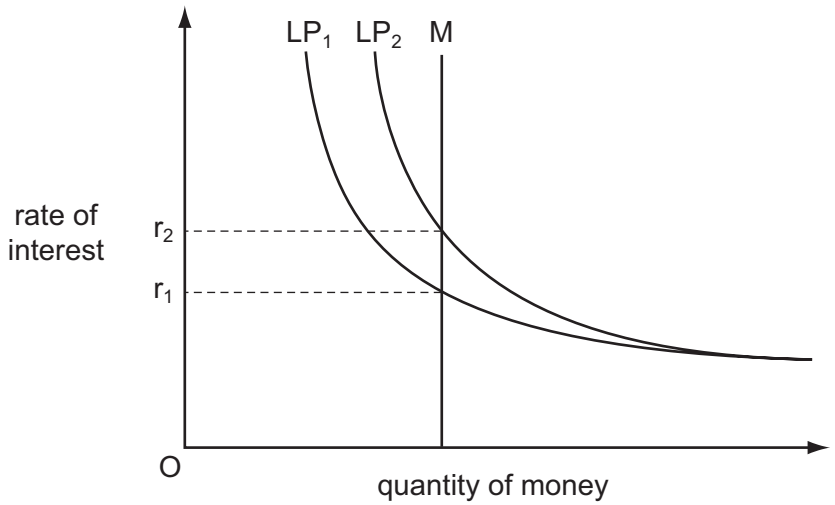
B Government expenditure will have to be reduced as government revenues decline.

C The rate of interest will rise as more money is required for transactions purposes.

D The stimulus to invest will decline as the real burden of company debt rises.

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24 The diagram shows the determination of the rate of interest in the economy, where M represents the money supply and LP represents liquidity preference.



What could cause the rise in the rate of interest from r_1 to r_2?

A an increase in national income

B an increase in the money supply

C a reduction in investment expenditure

D a reduction in the loans made by the private sector

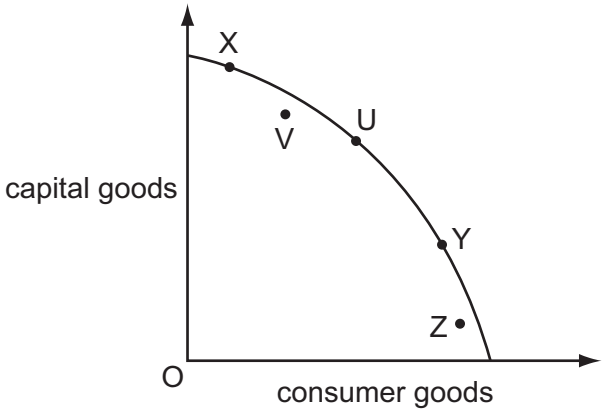
25 An economy is experiencing economic growth.

What will be the effect on its rate of inflation, level of unemployment and current account surplus?

	rate of inflation	level of unemployment	current account surplus
A	lower	lower	lower
B	raise	lower	raise
C	raise	raise	uncertain
D	uncertain	uncertain	uncertain

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26 The diagram shows a country's production possibility curve and a number of alternative production points.



Which change in the country's output would be **most** likely to lead to a fall in potential growth?

A U to V **B** U to X **C** Y to X **D** Y to Z

27 A developing country receiving foreign financial aid is **most** likely to experience economic growth in the long-run if it uses the money to

A boost welfare benefits for the poorest households.

B pay for imports of capital goods.

C reduce environmental pollution.

D reduce income tax for all households.

28 Increased borrowing by the government results in higher interest charges and this leads to less private investment expenditure.

Of what is this an example?

A an automatic stabiliser

B crowding out

C the accelerator

D the substitution effect

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29 The data below relate to a particular country for the four years shown:

Year	1	2	3	4
real GNP / head (Year 1 = 100)	100	110	121	121
life expectancy at birth (years)	65	64	65	67
% of age group enrolled in secondary education	40	38	42	42

What can definitely be concluded from these data?

A Economic growth between Year 2 and Year 3 was 11%.

B The level of economic development was better in Year 2 than in Year 1.

C There was both economic growth and an improvement in economic development between Year 2 and Year 3.

D No conclusions can be drawn as to whether the level of economic development was better in Year 4 than Year 3.

30 A government's budget is balanced at a time when the economy is fully employed, but an aggregate demand shock causes a decline in national income.

What will be the result if the government keeps its tax rates and level of spending unchanged?

A a cyclical budget deficit

B a cyclical budget surplus

C a structural budget deficit

D a structural budget surplus

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ECONOMICS **9708/33**

Paper 3 Multiple Choice (Supplement) **May/June 2015**

1 hour

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

* 4 4 4 8 4 2 6 9 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 When is economic efficiency achieved in an economy?

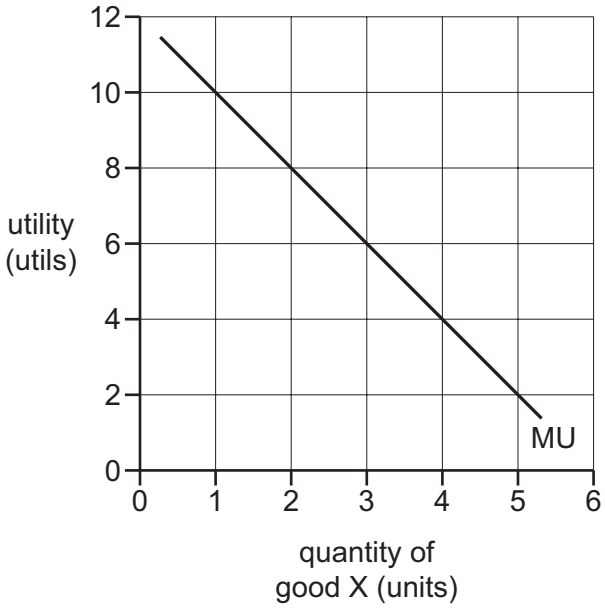
A when nobody can become better off without somebody else becoming worse off

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 diagram shows the marginal utility (MU) an individual derives from consuming different quantities of good X.



At the margin, the individual derives two units of utility from every $1 that he spends.

Which quantity of good X will he purchase if the price of X is $2?

A 1 **B** 2 **C** 4 **D** 5

3 Why will the quantity demanded increase when the price of a normal good falls?

A The income and substitution effects are both positive.

B The income and substitution effects are both negative.

C The negative income effect is greater than the positive substitution effect.

D The positive income effect is greater than the negative substitution effect.

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4 A firm in a perfectly competitive industry employs two factors of production, X and Y.

The table shows the factor price and the current marginal physical product of these two factors.

	factor X	factor Y
factor price	$2.50	$6.00
marginal physical product	2	8

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

A employ less of both X and Y

B employ less of X and more of Y

C employ more of both X and Y

D employ more of X and less of Y

5 In which situation is it likely that the demand for labour would be inelastic?

A Labour and capital are close substitutes.

B Labour costs are only a small proportion of total costs.

C Demand for the final product that the labour produces is elastic.

D A large quantity of unemployed labour is available in the economy.

6 An actor is paid $100 000 a year. The next best paid job he could get would be as a lecturer.

He estimates that he currently earns an economic rent of $40 000.

What wage could he earn as a lecturer and what are his transfer earnings?

	wage as a lecturer ($)	transfer earnings ($)
A	40 000	60 000
B	40 000	140 000
C	60 000	60 000
D	60 000	140 000

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7 The schedule shows the short-run marginal cost of producing good X.

units of X	1	2	3	4	5	6
marginal cost ($)	45	40	30	20	20	50

Given that the total fixed cost is $50, what level of output minimises average total cost?

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

8 The table shows the quantity of inputs needed to produce different levels of output.

output	inputs
100	5
200	10
300	15
400	19
500	25

Over which output range do increasing returns to scale occur?

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

9 In many developed economies, large and small firms often exist side by side in the same industry.

What is most likely to explain the survival of these small firms?

A They each offer a much wider range of products.

B They have a higher minimum efficient scale.

C They pay much higher wages to their staff.

D They provide a more personal level of consumer service.

10 A bad harvest for an agricultural crop results in an increase in the total revenue received collectively by farmers.

If the demand schedule remains the same, what can be concluded from this?

A Demand is price elastic.

B Demand is price inelastic.

C Supply is price elastic.

D Supply is price inelastic.

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11 What is the necessary characteristic of an oligopolistic industry?

A mutual interdependence

B non-price competition

C price leadership by a dominant firm

D price rigidity

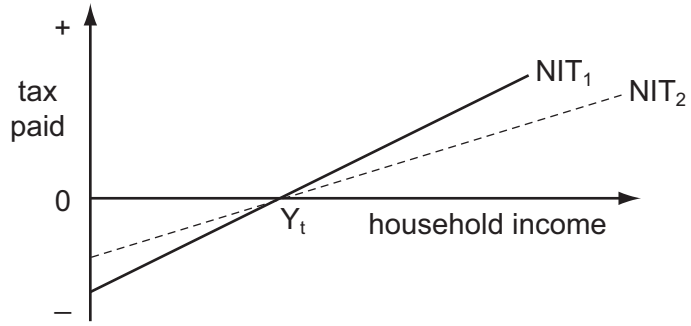
12 The table shows a firm's average variable cost of producing different levels of output. There are no fixed costs.

units of output	1	2	3	4	5	6	7
average variable cost ($)	22	18	15	13	14	16	18

If the market price were $18, within what range of output would a profit-maximising firm in a perfectly competitive industry produce in the short-run?

A 1–2 units **B** 3–4 units **C** 4–5 units **D** 6–7 units

13 The diagram illustrates the working of a negative income tax system (NIT), where households with incomes above Y_t pay tax and those with incomes below Y_t receive a tax credit.



What would be the effects of decreasing the effective tax rate, thereby causing the NIT schedule to shift from NIT_1 to NIT_2?

	effect on work incentives	effect on net tax revenue
A	decrease	increase
B	decrease	uncertain
C	increase	increase
D	increase	uncertain

14 The table shows the costs of two milk producers.

	costs per litre
firm X	$9
firm Y	$7

The price received by producers is $12 per litre. Both firms have been given quotas allowing them to produce 200 litres per day.

Assuming constant costs of production and zero costs of entry and exit, what is the maximum price firm Y would be willing to pay (per day) to buy X's quota?

A $400 **B** $600 **C** $1000 **D** $1400

15 Which trade-off do governments face when they embark upon the privatisation of a state monopoly?

A between allocative and productive efficiency

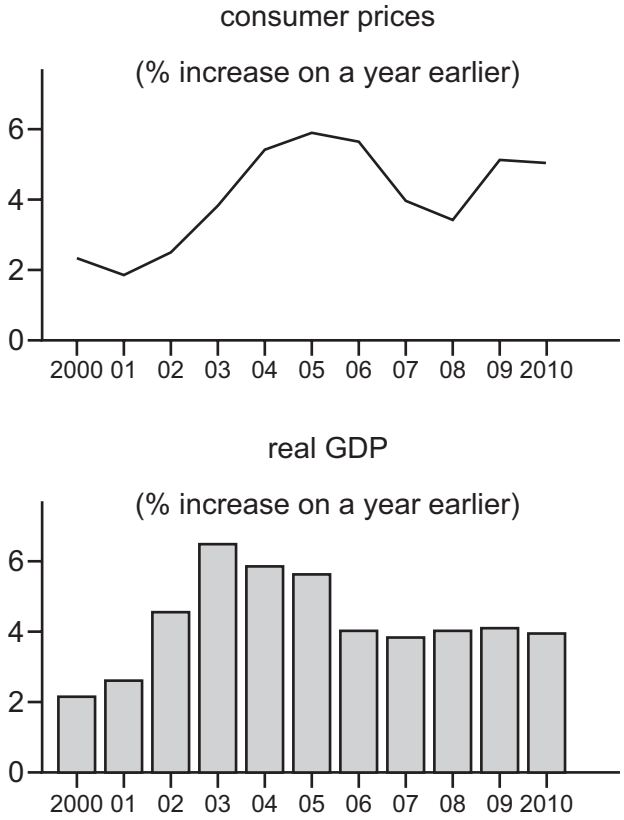
B between introducing competition and maximising revenue from the privatisation

C between productive and technical efficiency

D between pursuing short-run and long-run profit maximisation

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16 The graphs show how consumer prices and real GDP changed in a country between 2000 and 2010.



Which conclusion may be drawn from the graphs?

A The level of real GDP was lower in 2010 than in 2005.

B The price level fell between 2005 and 2008.

C Living standards remained roughly constant between 2000 and 2010.

D The country experienced continuous economic growth between 2000 and 2010.

17 What will be the short-run effect on the level of output of an increase in the money supply, according to Keynesian theory (assuming the liquidity trap does not apply) and according to monetarist theory (assuming the increase is unanticipated)?

	effect on output	
	Keynesian theory	monetarist theory
A	increase	increase
B	increase	decrease
C	unchanged	increase
D	unchanged	decrease

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

A a decrease in 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 A developing economy's exports are price inelastic in demand, while its imports are price elastic.

What would cause a rise in GDP and a fall in the deficit on the current account of the balance of payments?

A a devaluation of its currency

B a fall in the price of its imports

C a reduction in the existing quota limits imposed on its exports

D the development abroad of synthetic substitutes for its exports

20 In a closed economy with no government, the value of the investment multiplier is 4.

By how much will **consumption** increase, if investment increases by $200?

A $50 **B** $350 **C** $600 **D** $800

21 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

22 If the money supply is fixed, an increase in economic activity

A increases the transactions demand for money.

B lowers the liquidity preference schedule.

C reduces interest rates.

D reduces the income velocity of circulation.

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23 What will be the likely effects on interest rates and bond prices of a decrease in the demand for money?

	interest rates	bond prices
A	fall	fall
B	fall	rise
C	rise	fall
D	rise	rise

24 In an economy, the volume of output falls by 2% in a year, while the quantity of money rises by 3%.

If the velocity of circulation of money remains the same, what will be the approximate increases in the price level and the money value of national income?

	increase in price level	increase in money value of national income
A	1%	3%
B	1%	5%
C	5%	3%
D	5%	5%

25 A country has a high ratio of investment to GDP and rapid economic growth.

If the net capital inflow from abroad is zero, what will be a necessary cost of such growth?

A an increase in taxation

B increased consumption of luxury goods by richer residents

C increased imports of goods from abroad

D the sacrifice of present consumption by residents of the country

26 Why may an economy experience an increase in potential economic growth despite net investment remaining unchanged?

A Capital consumption exceeds net investment.

B Net investment exceeds gross investment.

C The new capital equipment embodies more advanced technology.

D The new capital equipment is longer lasting than the capital equipment it replaces.

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27 It is often argued that the UN Human Development Index is a better indicator of economic development than income per capita because it adjusts for

A average hours worked by the population.

B environmental pollution.

C inequality in income distribution.

D life expectancy at birth.

28 The table shows the labour market for an economy in four different years.

In which year was there excess demand in the labour market?

	working population (millions)	unemployment rate (%)	job vacancies (thousands)
A	19	1.0	180
B	19	2.0	80
C	20	1.1	240
D	20	1.5	100

29 The table gives details of the inflation and unemployment rates for different countries in 2008 and 2011.

country	inflation rate (% per annum)		unemployment rate (% of workforce)	
	2008	2011	2008	2011
Canada	2.38	2.89	6.15	7.47
France	3.16	2.29	7.81	9.68
Germany	2.75	2.48	7.60	5.98
Japan	1.37	–0.28	3.99	4.55

Which country or countries experienced a trade-off between their inflation and unemployment rates?

A Canada and Germany

B Canada only

C France and Japan

D France only

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30 A country experiences an increase in unemployment due to deficiency of aggregate demand.

Assuming that tax rates and rates of unemployment benefit remain unchanged, what will be the effect on tax revenue and government expenditure?

	tax revenue	government expenditure
A	decrease	increase
B	decrease	no change
C	increase	decrease
D	no change	increase

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