Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/31**

Paper 3 Multiple Choice **May/June 2016**

1 hour 15 minutes

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

* 2 2 2 2 2 8 5 4 2 3 8 *

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.

This document consists of **11** printed pages and **1** blank page.

© UCLES 2016

1 A firm increases its production.

When will this result in efficiency?

A when the cost of producing the last extra unit equals the value the consumers place on it

B when the cost of producing the last extra unit is at a minimum

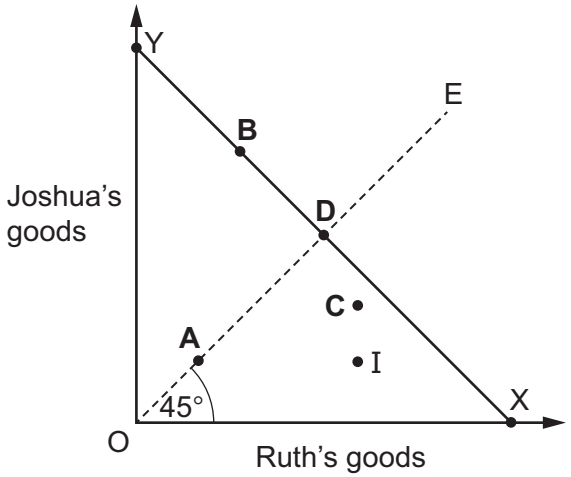
C when the total cost of production equals the value that consumers place on the total product

D when the total revenue reaches a maximum

2 Joshua and Ruth are a remote island's only residents.

The line XY in the diagram shows the maximum amount of goods that are available to Joshua and Ruth and the line OE indicates points of equal distribution of the goods.

Compared to an initial point I, which point would result in an increase in economic welfare according to the Pareto Efficiency Criterion?



3 What is a key difference between the use of cost-benefit analysis in public-sector investment projects compared with its use in private-sector investment projects?

A Costs are more difficult to compute in private-sector investment projects.

B Private-sector investment projects involve less risk.

C Public-sector investment projects involve benefits which occur in the future.

D The frequent absence of prices in public projects makes benefit estimates more uncertain.

4 Why does a normal demand curve for a product slope downwards from left to right?

A Buyers' additional satisfaction declines as consumption rises.

B Consumers are faced with choices between competing products.

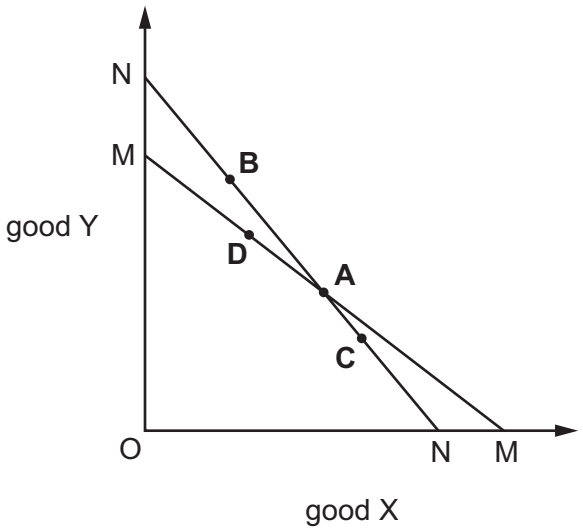
C Sellers are willing to accept lower prices on larger orders.

D The average cost of production falls as the scale of production increases.

© UCLES 2016

5 The diagram shows budget lines of a consumer choosing between two goods, X and Y. Initially the budget line is MM and the consumer's preferred position is at point **A**. Subsequently the money prices of both goods change shifting the budget line to NN.

Which point could represent the preferred position of the consumer after the change in prices if their tastes remained unchanged?



6 A single firm in an industry alters production, but its actions have no effect on the market price of the good.

If the price always clears the market, how would an economist classify this industry?

A imperfect competition

B monopoly

C oligopoly

D perfect competition

7 What is most likely to result in non-cooperative behaviour between producers in an oligopoly market?

A barriers to entry of new firms

B ease of detection of prices being set by other firms

C product differentiation between firms in the industry

D stability in demand and costs of production over time

8 When would the aim of a firm be most likely to be other than profit maximisation?

A when there are a large number of firms in the industry

B when there are a large number of shareholders and few paid managers

C when there is a large investment expenditure required

D when there is a large output produced

© UCLES 2016

9 A firm in monopolistic competition is maximising profit and producing at the minimum point on its average total cost curve.

What could **not** be correct?

A Marginal cost equals average cost.

B Marginal cost equals marginal revenue.

C The firm is making normal profit.

D The firm is making supernormal profits.

10 What is necessary for price discrimination to be profitable?

A There must be many buyers.

B There must be markets with different price elasticities of demand.

C There must be product differentiation.

D There must be separate markets.

11 A firm with a downward-sloping straight line demand curve for its product is producing at an output where its marginal revenue is positive.

Which strategy would be most effective if the owners of the firm want to maximise the total revenue of the firm?

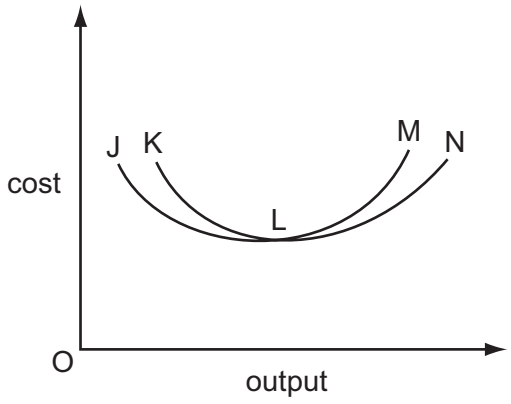
A decrease the firm's output to where marginal revenue equals average revenue

B decrease the product's price to where average revenue is zero

C increase the firm's output to where marginal revenue is zero

D increase the product's price to where marginal revenue equals average revenue

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



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

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

13 The table shows the employment size distribution (%) of manufacturing firms in two European countries reported by OECD in 2011.

	< 50 employees (%)	50–250 employees (%)	> 250 employees (%)
country X	50.3	30.7	19.0
country Y	20.2	25.5	54.3

What is most likely to explain the different employment distribution in the two countries?

A Country X has a bigger domestic market.

B Country X has a larger supply of entrepreneurs.

C Country X is more involved in international trade.

D Country X makes greater use of advanced technology.

14 A firm faces a downward-sloping demand for its product.

Assuming that labour is its only variable factor input, how does the firm derive its demand curve for labour?

A from the current price of output and the money wage rate of labour

B from the marginal factor cost of labour

C from the schedules of the marginal physical product of labour and of marginal revenue

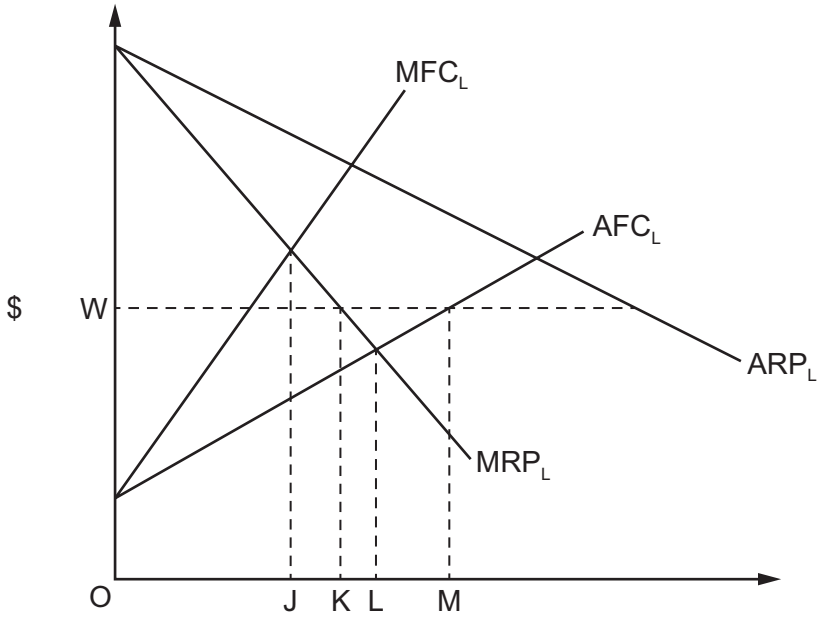
D from the schedules of the marginal physical product of labour and the money wage rate

© UCLES 2016

15 In the diagram, the ARP_L curve is the average revenue product of labour curve of a profit-maximising monopsony and the MRP_L curve is its marginal revenue product of labour curve.

The firm pays its workers the minimum wage, OW, set by the country's government.

The curves AFC_L and MFC_L show what the firm's average and marginal factor cost curves would be in the absence of government intervention.



What will happen to the number of workers employed by the firm if the minimum wage is abolished?

A It will decrease by JK.

B It will decrease by KM.

C It will increase by JK.

D It will increase by JL.

16 What could raise the level of employment in an industry producing good X?

A a decline in the marginal physical productivity of workers in industry X

B the imposition of a tariff on an imported good which is a complement to good X

C the introduction of an employer's contribution to a state welfare scheme for each employee

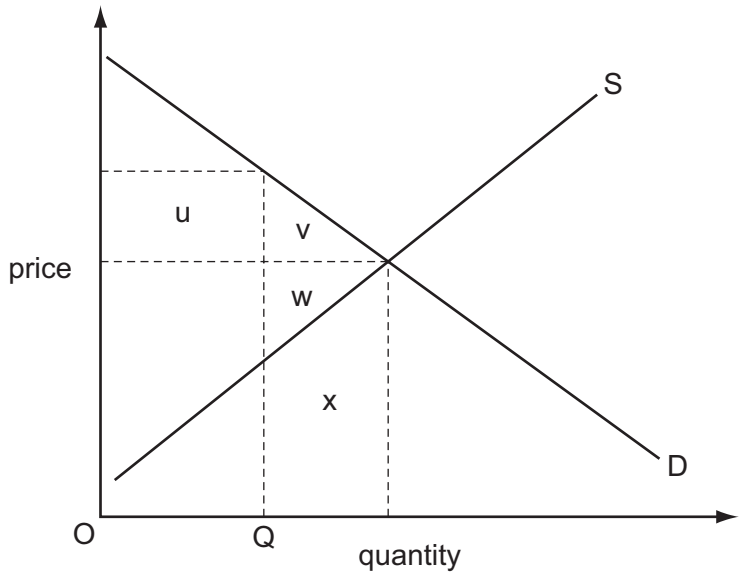
D the removal of a sales tax on good X

© UCLES 2016

17 Which combination of fiscal policy measures would be most effective in reducing income inequality?

	top rates of income tax	indirect taxes	value of state benefits
A	increase	increase	increase
B	increase	reduce	increase
C	reduce	increase	reduce
D	reduce	reduce	reduce

18 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

19 What is **not** included in the measurement of national income?

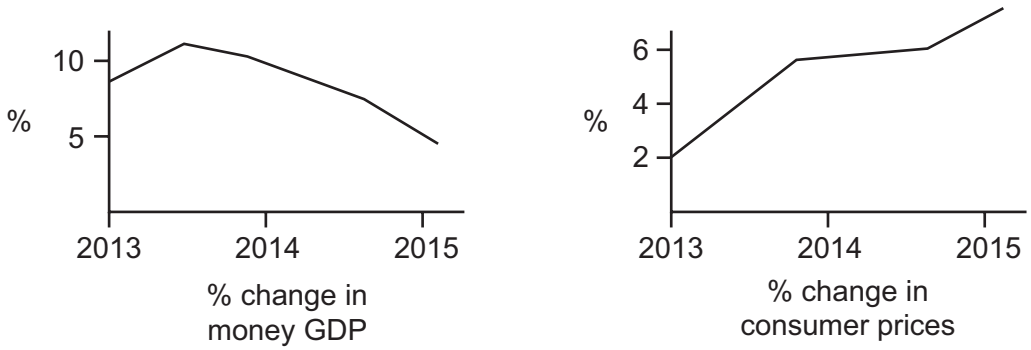
A benefits paid to the unemployed

B dividends paid to shareholders

C profits retained by companies

D rent paid to landlords

20 The graphs show percentage changes in money GDP and consumer prices in a country between 2013 and 2015.



Which conclusion can be drawn from the graphs?

A Consumer prices and money GDP both continued to rise throughout the period.

B In real terms GDP grew throughout the period.

C Money GDP fell more rapidly between 2014-2015 than between 2013-2014.

D The slowest rise in consumer prices occurred when money incomes fell.

21 Which of the following are characteristics of most developing economies?

	ratio of government debt to GDP	average propensity to save
A	high	high
B	high	low
C	low	high
D	low	low

22 Labour from developing countries often migrates to developed countries and finds jobs.

How would such a movement of labour be likely to affect the economic growth and the pressure on wage rises in the developed country?

	economic growth	pressure on wage rises
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

© UCLES 2016

23 Which type of unemployment is associated with a deficiency in aggregate demand?

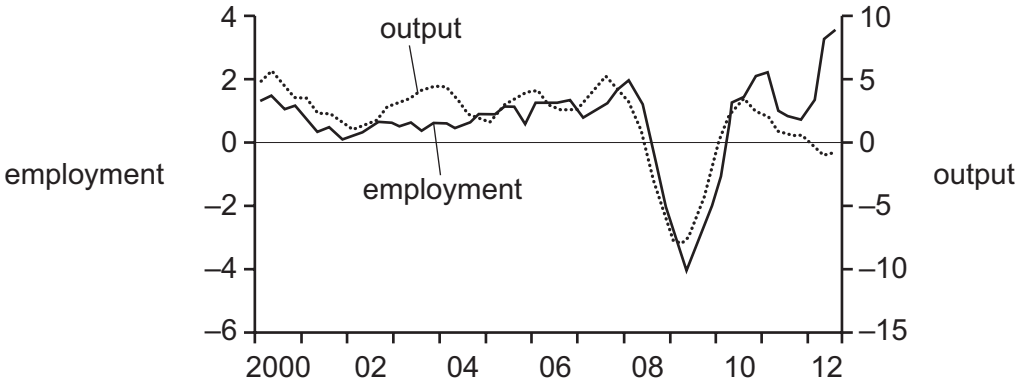
A cyclical

B frictional

C structural

D voluntary

24 The diagram shows the annual percentage (%) change in employment and output in the UK private sector between 2000 and 2012.



In which year did labour productivity decrease the most?

A 2001 **B** 2008 **C** 2011 **D** 2012

25 Which is most likely to cause a decrease in the public's ratio of cash to bank deposits?

A an increase in the number of cash dispenser machines (ATMs)

B a reduction in interest rates on bank deposits

C the closure of bank branches

D the introduction of annual charges for the use of credit cards

26 In an economy with no government sector

C = consumption

I = investment

X = exports

M = imports

Y = national income.

If C = 20 + 0.75Y, I = 60, X = 120 and M = 120, what will be the equilibrium level of Y?

A 80 **B** 280 **C** 320 **D** 400

© UCLES 2016

27 Which correctly identifies leakages from a country's circular flow of income?

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

28 The table gives an economy's unemployment rate and inflation rate for a five-year period.

year	unemployment rate %	inflation rate %
2010	7.6	2.6
2011	6.2	1.6
2012	5.8	1.8
2013	5.9	2.0
2014	5.8	2.0

What change between consecutive years was in agreement with the Phillips curve analysis?

A 2010–2011

B 2011–2012

C 2012–2013

D 2013–2014

29 Workers in poor countries are often less productive than workers using the same technology in rich countries.

What would be most likely to remedy this situation?

A an increase in the saving ratio in poor countries

B increased freedom of migration from poor countries to rich countries

C increased investment in education in poor countries

D the removal of trade barriers imposed by rich countries on imports from poor countries

© UCLES 2016

30 What is most likely to increase as a result of a rise in interest rates in a country?

A the inflow of short-term foreign capital

B the level of company profits

C the level of private investment

D the level of share prices

© UCLES 2016

BLANK PAGE

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

To avoid the issue of disclosure of answer-related information to candidates, all copyright acknowledgements are reproduced online in the Cambridge International Examinations Copyright Acknowledgements Booklet. This is produced for each series of examinations and is freely available to download at www.cie.org.uk after the live examination series.

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

Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/32**

Paper 3 Multiple Choice **May/June 2016**

1 hour 15 minutes

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

0533490984

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.

This document consists of **10** printed pages and **2** blank pages.

© UCLES 2016

1 What action by a firm is most likely to raise its dynamic efficiency?

A distributing all its current profit to its existing shareholders

B maximising the labour productivity of its current workers

C minimising the average cost of producing its current output

D retaining its current profit for product research and development

2 The current distribution of goods between two individuals in a two-person economy with given technology and resources is at point X.

According to the Pareto criterion, which point would definitely indicate increased allocative efficiency?



3 The concept of allocative efficiency assumes that each individual in society is the best judge of their own economic welfare.

Which example of government intervention is based on an argument which rejects this assumption?

A pollution controls

B subsidies for merit goods

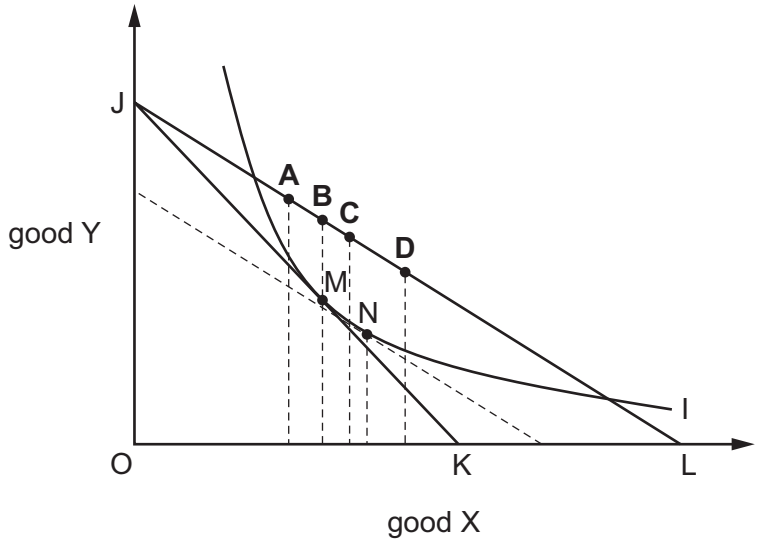
C the provision of public goods

D the regulation of monopolies

© UCLES 2016

4 In the indifference curve diagram point M is the consumer's initial equilibrium and MN is the substitution effect of a fall in the price of good X.

If good X is a Giffen good which point will be the consumer's new equilibrium point after the fall in the price of good X?



5 To maximise the satisfaction he derives from a given level of expenditure on two goods, X and Y, a consumer should allocate his expenditure between the two goods so that

A marginal utility of X = price of X and marginal utility of Y = price of Y.

B marginal utility of X plus marginal utility of Y is maximised.

C marginal utility of X = marginal utility of Y.

D $\frac{\text{marginal utility of X}}{\text{marginal utility of Y}} = \frac{\text{price of X}}{\text{price of Y.}}$

6 Which statement about the 'kinked demand curve' model of oligopoly is **incorrect**?

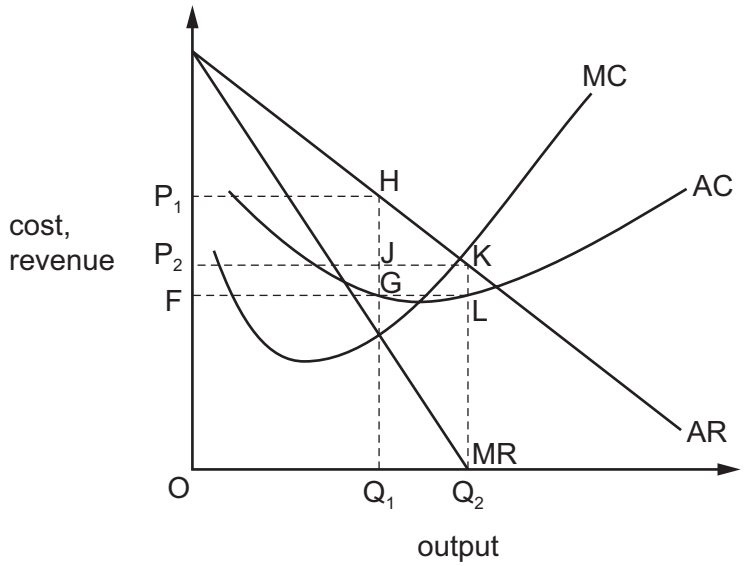
A The kink in the demand curve of each firm is based on expectations about other firms' responses to changes in its price.

B The marginal revenue curve of the firm has a vertical segment at the market price.

C The model explains how the equilibrium market price is determined.

D The model suggests price stickiness within a certain range of marginal costs.

7 A monopolist changes its objective from profit maximisation to sales revenue maximisation.



On the diagram, which areas represent the monopolist's total profit?

	original profit	final profit
A	P_1HJP_2	P_2KLF
B	P_1HJP_2	JKLG
C	P_1HGF	P_2KLF
D	P_1HGF	JKLG

8 A firm estimates that, all else remaining unchanged, an increase in its output will result in a fall in its revenue.

What can be concluded from this?

A The demand for the firm's product is price-elastic.

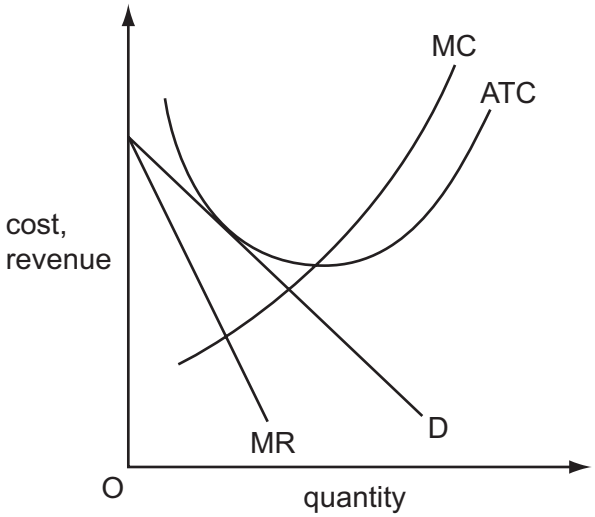
B The demand for the firm's product is price-inelastic.

C The supply of the firm's product is price-elastic.

D The supply of the firm's product is price-inelastic.

© UCLES 2016

9 The diagram shows the cost and revenue curves of a firm.



What does the diagram represent?

A a firm in monopolistic competition making normal profit

B a firm in monopolistic competition making short-term losses

C a firm in perfect competition at long-run equilibrium

D a monopoly making abnormal profits

10 Which is a risk-bearing economy of scale?

A greater bargaining power in purchasing from suppliers

B greater diversification of the product range

C lower costs in raising capital

D lower distribution costs by increasing market share

11 A firm wishes to eliminate competition and become a monopoly.

What should it do?

A maximise output

B maximise profit

C reduce prices

D reduce the number of its suppliers

© UCLES 2016

12 In many developed economies, clothes are designed by small firms and retailed by large firms.

What is the most likely explanation for this pattern?

	clothes design firms	clothes retail firms
A	need to be flexible to cope with frequent fashion changes	need to exploit marketing economies of scale
B	need to employ highly specialised and skilled workers	need to operate at a low minimum efficient scale
C	need to operate at a high minimum efficient scale	need to offer a wide range of products to survive
D	need to overcome high barriers to entry into the industry	need to take advantage of technical economies of scale

13 What is likely to have its cause in the separation of ownership and control in a firm?

A contestable markets

B diseconomies of scale

C principal-agent problem

D prisoner's dilemma

14 A firm employs a worker who adds less to output than the previous worker employed.

What does this illustrate?

A decreasing marginal costs

B diseconomies of scale

C increasing returns to scale

D the law of diminishing returns

15 To increase the number of cleaners at a local school from 10 to 11, the employer has to raise the hourly rate of pay from $8.00 to $8.50.

What is the marginal cost of labour per hour to the employer?

A $0.50 **B** $13.50 **C** $88.50 **D** $93.50

© UCLES 2016

16 For a firm in imperfect competition, the marginal revenue product of labour at any given level of employment is equal to

A marginal revenue divided by the number employed.

B marginal revenue divided by the wage rate.

C the marginal physical product of labour multiplied by marginal revenue.

D the marginal physical product of labour multiplied by the wage rate.

17 Which policy would be most effective in achieving a more equal distribution of disposable incomes between households?

A government support for trade unions

B import duties on manufactured goods

C minimum wage policy

D progressive income taxes

18 A government regulates the price charged by a monopolist.

In which circumstance will such intervention improve economic efficiency?

A The government sets the price where average revenue equals marginal cost.

B The government sets the price where marginal cost is below average cost.

C The intervention results in an increase in producer surplus.

D The intervention results in predatory pricing.

19 What would cause estimates of the money value of the 'Measure of Economic Welfare' for a country to be **greater** than the value of 'Gross National Product'?

A negative externalities such as pollution

B property income received from abroad

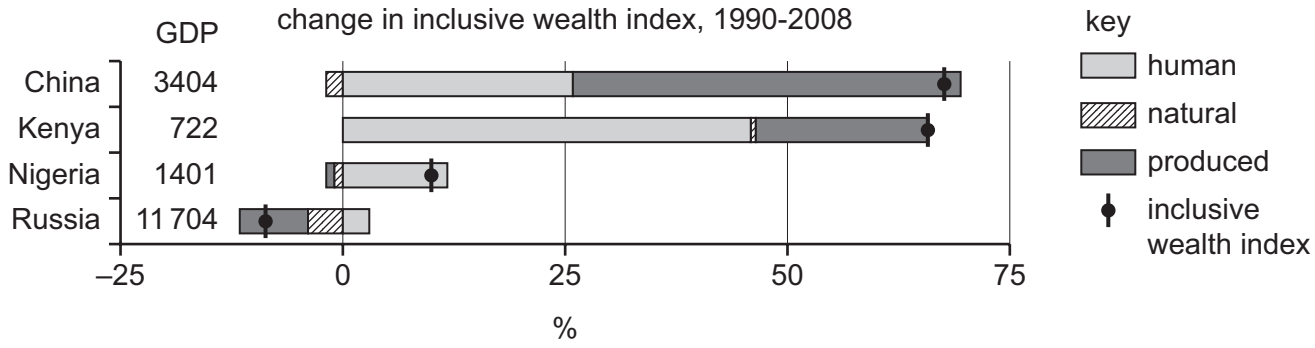
C regrettable necessities

D the value of non-marketed activities and leisure

© UCLES 2016

20 In 2012 a United Nations report calculated the stock of wealth of 20 countries in terms of human, natural and produced resources. This was measured as the Inclusive Wealth Index (IWI).

The diagram shows the annual percentage (%) change in the IWI between 1990 and 2008 of the economies with the fastest and the slowest growth in IWI. It also shows their 2008 GDP per head ($).



What can be concluded from the diagram?

A A low level of GDP per head meant an inability to build stocks of wealth.

B No country was able to prevent depletion of its natural resources.

C The faster the growth in a country's IWI the higher was its GDP.

D There was an increase in human resources in all four countries.

21 Which combination is usually found in less developed economies?

	low	high
A	capital : output ratio	saving ratio
B	external debt	capital : output ratio
C	population growth	external debt
D	saving ratio	population growth

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

A a decrease in the saving ratio

B an increase in investment in human capital

C the depletion of non-renewable resources

D the greater use of compulsory overtime working of labour

© UCLES 2016

23 Which type of unemployment occurs when aggregate demand is deficient?

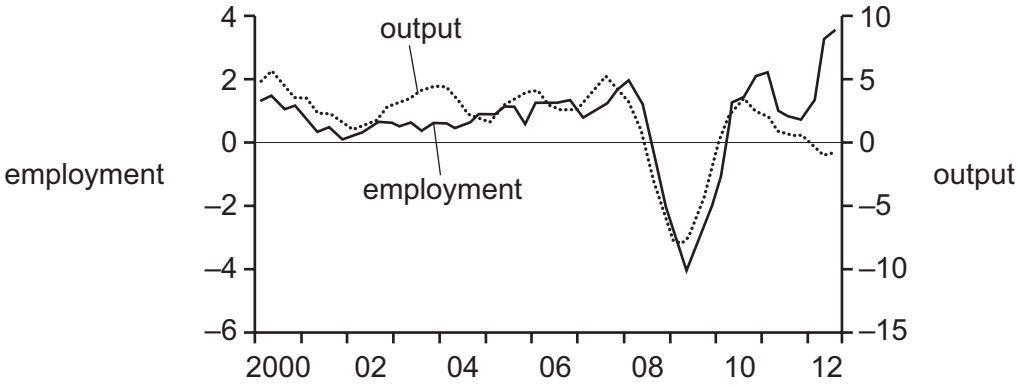
A cyclical unemployment

B regional unemployment

C seasonal unemployment

D structural unemployment

24 The diagram shows the annual percentage (%) change in employment and output in the UK private sector between 2000 and 2012.



In which year did labour productivity increase the most?

A 2003 **B** 2007 **C** 2009 **D** 2012

25 According to Keynesian theory, when will an increase in the money supply leave the level of output unchanged?

A when the liquidity trap is operative

B when the money supply increase was not anticipated

C when there is a floating exchange rate

D when there is an immediate adjustment to expectations about future price levels

26 In a 4-sector economy, consisting of households, firms, government and foreign trade, the level of national income is in equilibrium where

$$C + I + G + (X – M) = Y.$$

What must Y include for an equilibrium to exist?

A C + S + M

B C + S + T

C S + T

D S + T + M

© UCLES 2016

27 When would an economic recession result in an increase in a government's budget deficit?

A The government increases tariffs on imports with inelastic demand and keeps the total amount it spends on unemployment benefit unchanged.

B The government keeps the unemployment benefit rate and direct and indirect tax rates unchanged.

C The government reduces foreign aid and widens the tax base.

D The government reduces the unemployment benefit rate and decreases the tax free allowance on income tax.

28 What will be most likely to rise if unemployment is increasing in an economy?

A the human capital of unemployed workers

B the living standards of all workers

C the nominal money wage rate of employed workers

D the tax burden on employed workers

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

A a deterioration in the trade balances of developing economies

B a reduction in migration to urban areas in developing economies

C a reduction in the transfer of technology to developing economies

D a rise in per capita levels of consumption in developing economies

30 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

© UCLES 2016

BLANK PAGE

BLANK PAGE

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

To avoid the issue of disclosure of answer-related information to candidates, all copyright acknowledgements are reproduced online in the Cambridge International Examinations Copyright Acknowledgements Booklet. This is produced for each series of examinations and is freely available to download at www.cie.org.uk after the live examination series.

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

Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/33**

Paper 3 Multiple Choice **May/June 2016**

1 hour 15 minutes

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

5019225147

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.

This document consists of **11** printed pages and **1** blank page.

© UCLES 2016

1 Which statement is **not** usually associated with the achievement of economic efficiency?

A There is efficiency in consumption if there is no way to redistribute goods among consumers that makes some consumers better off without making others worse off.

B There is efficiency in output levels if there is no different mix of output that would make some people better off without making others worse off.

C There is efficiency in pricing if there is no other pattern of prices that would make some producers better off without making others worse off.

D There is efficiency in production if there is no way to produce more of some goods without producing less of other goods.

2 A Chinese proverb states that 'One generation plants a tree and the next generation enjoys its shade'.

Which economic concept does the proverb best illustrate?

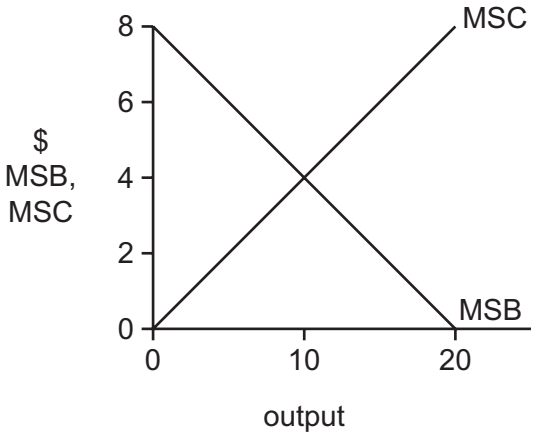
A comparative advantage

B division of labour

C positive externality

D public good

3 The diagram shows the marginal social benefit (MSB) and marginal social cost (MSC) from a production process.



What is the socially desirable level of output?

A at 0 units because MSC is zero

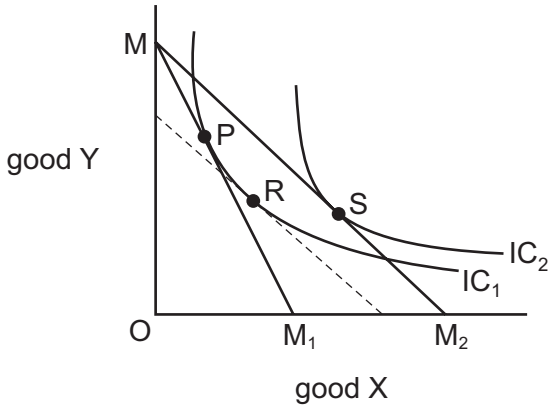
B between 0 and 10 units because MSB is greater than MSC

C at 10 units because MSB equals MSC

D at 20 units because MSB is exhausted

© UCLES 2016

4 The diagram shows two indifference curves and two budget lines for two goods X and Y.



The initial position is P. P-R is a substitution effect. R-S is an income effect.

What type of good is good X?

A a Giffen good

B a luxury good

C a normal good

D an inferior good

5 If a firm is making normal profit, it must be true that

A average cost equals average revenue.

B marginal cost equals average cost.

C marginal cost equals average revenue.

D marginal cost equals marginal revenue.

6 For which market structure can a market supply curve be constructed?

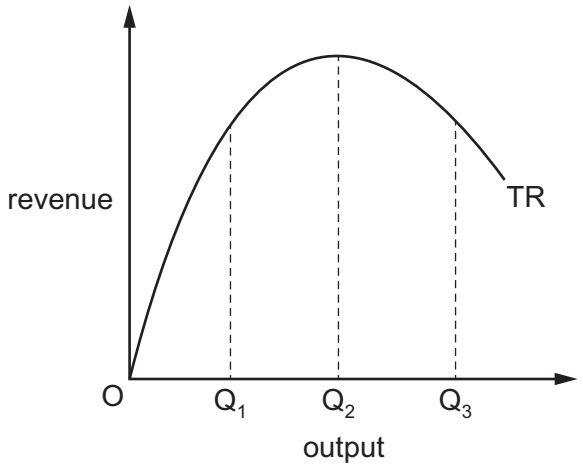
A imperfect competition

B monopoly

C oligopoly

D perfect competition

7 The diagram shows the total revenue curve for a firm operating in an imperfectly competitive market.



What is the value of the price elasticity of demand for the product at outputs Q_1, Q_2 and Q_3?

	output Q_1	output Q_2	output Q_3
A	equal to 1	less than 1	greater than 1
B	greater than 1	equal to 1	less than 1
C	greater than 1	less than 1	equal to 1
D	less than 1	equal to 1	greater than 1

© UCLES 2016

8 In September 2008 Google introduced its Chrome web browser. The table shows the market percentage (%) share of different web browsers between September 2008 and June 2014.

web browser	% share in September 2008	% share in June 2014
Internet Explorer	67.2	21.0
Firefox	25.8	17.9
Safari	3.0	10.3
Opera	2.8	1.8
Chrome	1.0	45.5
others	0.2	3.5

What can be concluded from the table about the change in market concentration ratios between 2008 and 2014?

	5-firm concentration ratio	3-firm concentration ratio
A	fell	fell
B	fell	rose
C	rose	fell
D	rose	rose

9 A firm incurs both fixed and variable costs of production. It is currently producing at the level of output which minimises its average total cost.

What effect will a small reduction in output have on the firm's marginal and average variable costs?

	marginal cost	average variable cost
A	fall	fall
B	fall	rise
C	rise	fall
D	rise	rise

10 The data below relates to a firm over three years.

	year 1	year 2	year 3
sales ($m)	120	140	135
pre-tax profit ($m)	30	25	10
net capital employed (index no. year 1)	100	95	120

Over which period could the firm definitely be said to have grown in size?

	between years 1 and 2	between years 2 and 3	between years 1 and 3
A	no	no	yes
B	no	yes	no
C	yes	no	no
D	yes	yes	yes

11 What is true about economies of scale but **not** diseconomies of scale?

A They occur because average revenue is increasing.

B They occur because of management policy changes.

C They occur in the short run.

D They occur with decreasing average cost.

12 In which circumstances are a firm's objectives most likely to differ from profit maximisation?

A when a firm finances new investment largely by retained profits

B where firms are companies with very active shareholders

C where investment banks make takeovers easy to implement

D where there are a large number of individual shareholders in a firm run by employed managers

13 What will happen if a firm is subsidised by an amount equal to the external benefits that it gives to the rest of society?

A Resource allocation will be improved.

B The firm will produce less.

C There will be a misallocation of resources.

D There will be no effect upon production.

© UCLES 2016

14 A firm is operating in a perfectly competitive market.

Why does the marginal revenue product of a factor of production employed by the firm fall as more of the factor is employed?

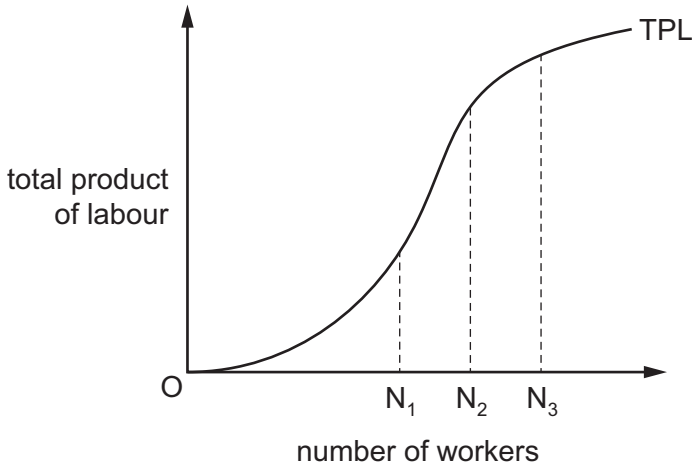
A Its average revenue falls.

B Its marginal physical product falls.

C Its marginal revenue falls.

D The supply price of the factor rises.

15 The diagram shows a firm's total product of labour (TPL) curve.



Which statement is correct?

A The average product of labour is maximised at ON_1.

B The average product of labour is maximised at ON_2.

C The marginal product of labour is maximised at ON_2.

D The marginal product of labour is maximised at ON_3.

16 What would cause a perfectly competitive firm's marginal revenue product of labour curve to shift to the right?

A a higher rate of sales tax

B a rise in the price of the final product

C an increase in labour supply

D an increase in wages

17 It has been argued that when income tax rates imposed on individuals are increased from zero towards 100%, tax revenue initially increases, but at some point it will decrease.

If this argument is correct, it follows that

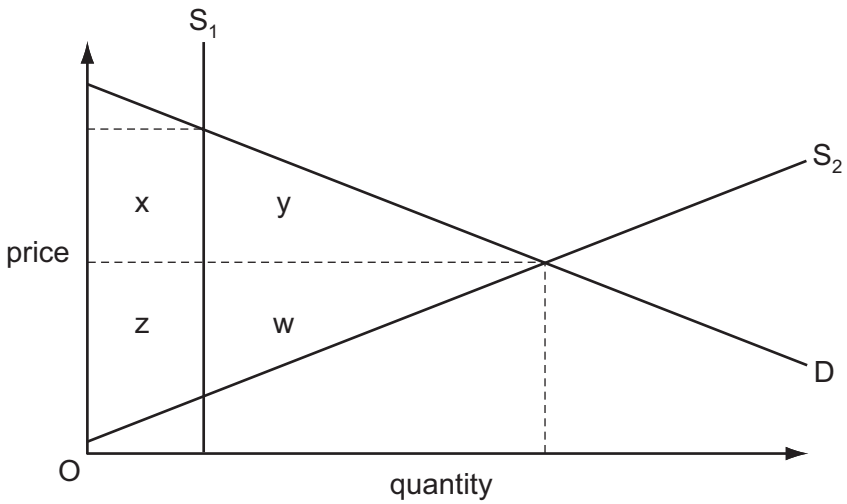
A governments should forgo any attempt to relieve poverty via fiscal policy.

B income tax rates should be set to maximise government tax revenue.

C taxes should be levied on expenditure rather than income.

D there are limits to the redistributive effects of progressive taxation.

18 The diagram shows the market for new cars. Currently the quantity supplied is fixed by the government at S_1.



If the market was deregulated the supply curve would be S_2.

Which area measures the net welfare gain of removing the restriction on the quantity supplied?

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

19 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 the level of government spending in different countries

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

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

D adjustments to allow for differences in the value of exports from different countries

© UCLES 2016

20 The table shows real GDP per head measured in $US for countries X and Y over a three year period.

country	2011	2012	2013
X	100	110	121
Y	200	210	231

What can definitely be concluded from the data?

A Each country had the same rate of economic growth between 2011 and 2012.

B Growth in real GDP per head was higher in country X than in country Y between 2011 and 2012.

C Population growth was higher in country X than in country Y between 2012 and 2013.

D The average price level was higher in country X than in country Y throughout the period.

21 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

22 The table refers to changes in the percentage age distribution in a developing country between 2012 and 2014. There has been no emigration or immigration in this period.

year	% of population in each age group		
	0 - 15 years	16 - 64 years	65 years and over
2012	25	60	15
2014	30	58	12

Between 2012 and 2014 what can be deduced?

A The average age of the total population has increased.

B The death rate has increased.

C The infant mortality rate has risen.

D The percentage of the dependent population has increased.

23 What is a cause of seasonal unemployment?

A a general decrease in the demand for goods and services

B a lack of necessary skills in the workforce

C a temporary change in the pattern of consumers' expenditure

D an unwillingness of workers to move to other parts of the country where there is work

24 What is a possible combination of a cost and a benefit of rising levels of unemployment?

	cost	benefit
A	a deterioration in human capital	an increase in capital expenditure
B	an increase in import expenditure	a decrease in government tax revenue
C	an increase in the rate of economic growth	a more responsive workforce
D	an irretrievable loss of output	a reduction in inflationary pressure

25 Which is likely to cause a decrease in the public's desired ratio of cash to bank deposits?

A a decrease in the number of reported street crimes

B an extension of bank opening hours

C the introduction of a charge per transaction on accounts

D the introduction of annual charges for the use of credit cards

26 Investment is involved in both the accelerator and the multiplier.

What is the nature of the investment in each case?

	accelerator	multiplier
A	autonomous	autonomous
B	autonomous	induced
C	induced	autonomous
D	induced	induced

© UCLES 2016

27 In a closed economy with no government

C = consumption

I = investment

Y = income

Δ = represents a change in a variable

What is the value of the investment multiplier?

A $\frac{\Delta I}{\Delta Y}$ **B** $\frac{\Delta C}{\Delta I}$ **C** $\frac{\Delta C}{\Delta Y}$ **D** $\frac{\Delta Y}{\Delta I}$

28 What is the aim of stabilisation policy?

A to keep the exchange rate stable

B to keep the price level stable

C to reduce fluctuations in interest rates

D to reduce fluctuations in national output

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

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

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

30 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

© UCLES 2016

BLANK PAGE

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

To avoid the issue of disclosure of answer-related information to candidates, all copyright acknowledgements are reproduced online in the Cambridge International Examinations Copyright Acknowledgements Booklet. This is produced for each series of examinations and is freely available to download at www.cie.org.uk after the live examination series.

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