Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/31**

Paper 3 Multiple Choice **May/June 2017**

1 hour 15 minutes

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

* 3 7 4 6 0 8 7 4 2 0 *

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Write in soft pencil.
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Write your name, Centre number and candidate number on the Answer Sheet in the spaces provided unless this has been done for you.
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1 What would be an example of a market failure?

A higher prices for hotel rooms at holiday periods

B noise pollution experienced near major airports

C periods of inflation when prices of all goods and services rise

D 20% of a country's population live in poverty

2 What is a necessary condition for the achievement of productive efficiency?

A the removal of all externalities

B the elimination of all divergences between private and social costs

C equality between price and marginal cost in all industries

D the production of a good at minimum average cost for a given output

3 The table shows the expected costs and benefits from four government projects. The government can afford only one project.

Which project should the government choose?

	private benefits ($m)	external benefits ($m)	private costs ($m)	external costs ($m)
A	40	200	60	70
B	60	160	100	20
C	100	210	100	120
D	150	90	120	140

4 Which statement about indifference curves is correct?

A The indifference curves for inferior goods can show higher satisfaction on lower curves.

B The indifference curves for normal goods show a diminishing marginal rate of substitution.

C The indifference curves for perfect complements go through the origin.

D The indifference curves for perfect substitutes are right-angled.

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5 The diagram shows the marginal utility (MU) that an individual derives from a good at different levels of consumption.



The utility he derives from the last $ he spends on every good is 4 units.

Assuming the marginal utility of money is constant, which quantity will he purchase if the price of the good is $10?

A 4 kilos **B** 5 kilos **C** 6 kilos **D** 7 kilos

6 The takeover of a life assurance company by a bank is an example of

A horizontal integration.

B lateral integration.

C vertical backwards integration.

D vertical forwards integration.

7 Imperfect competition is distinguished from perfect competition in that, in long-run equilibrium,

A supply is elastic.

B demand is inelastic.

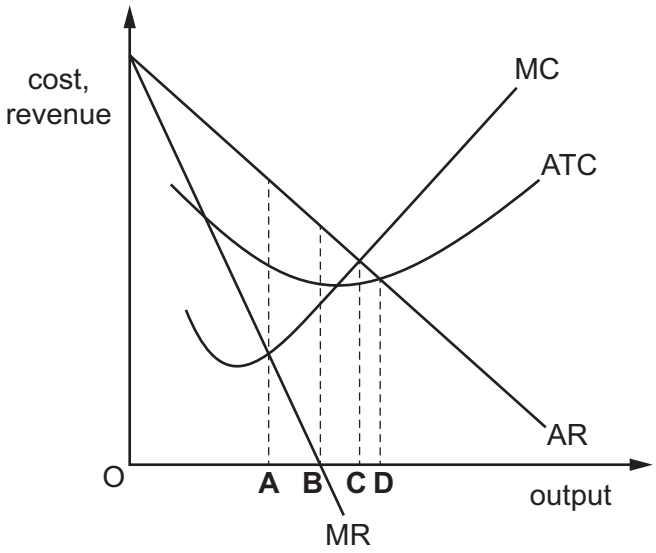
C marginal cost will be below average cost.

D average revenue will be below marginal revenue.

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8 The diagram shows the cost and revenue curves of a firm in imperfect competition.

At which output will the firm produce if it wishes to make some supernormal profit to satisfy its shareholders and at the same time to allocate resources efficiently?



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

A Copyrights on the product have expired.

B Customers want individual product designs.

C The cost of entering the industry is low.

D The industry's product is standardised.

10 A firm operates at the maximum point on its average product curve.

What necessarily follows?

A Average variable cost is at a minimum.

B Marginal cost is at a minimum.

C Marginal product is at a maximum.

D Total profit is at a maximum.

11 The dominant firm in an oligopoly sets up a research institute to carry out new product development.

Which two features of oligopoly are present in this project?

A creation of barriers to entry and collusion

B creation of barriers to entry and non-price competition

C non-price competition and price leadership

D price leadership and collusion

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12 What is the essential feature of nudge theory?

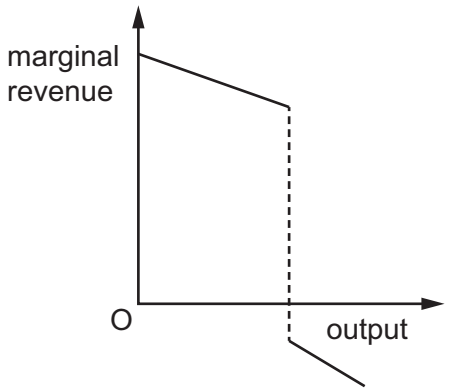
A the aim of satisficing

B the establishing of a legal requirement

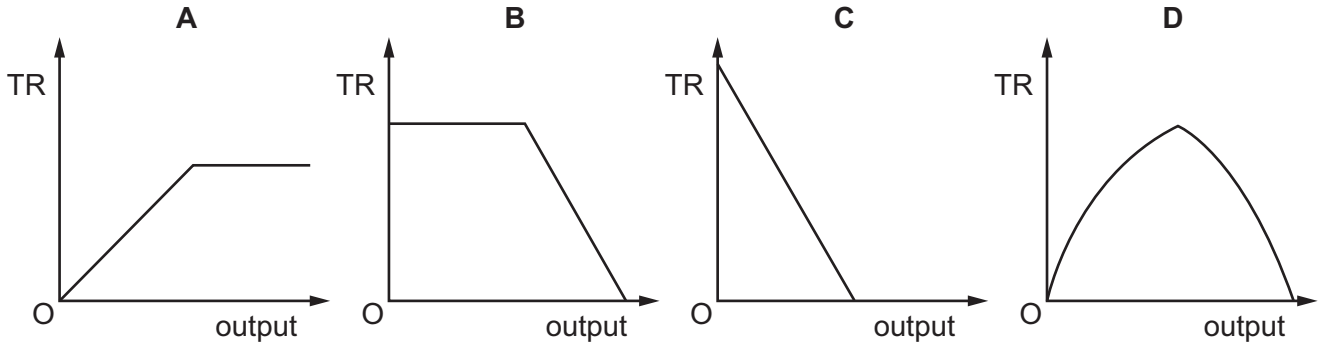
C the existence of a contestable market

D the idea of persuasion

13 The diagram shows a firm's marginal revenue curve.



Which total revenue curve corresponds to this firm's marginal revenue curve?



14 To control the cost of living governments have sometimes imposed a maximum price on certain goods that is below the free market price.

What is often an undesirable side effect of such policies?

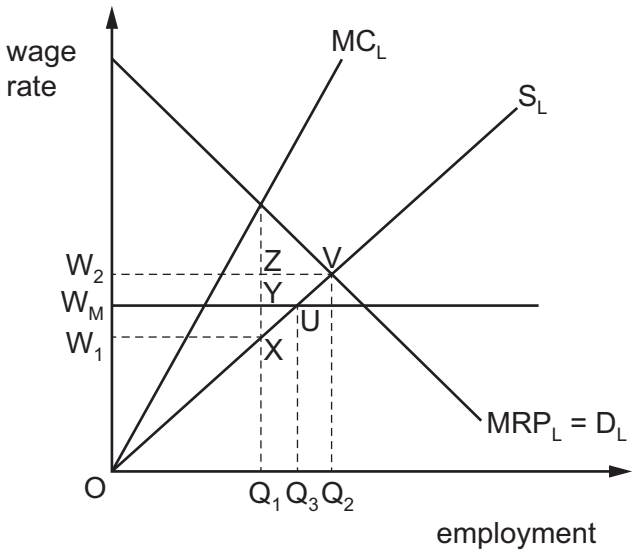
A accelerating general inflation

B an increase in profits above normal profits

C an increase in the stocks of unsold goods held by firms

D shortages of the good

15 The diagram shows the effect of the introduction of a national minimum wage, W_M, in an occupation where workers are employed by a profit-maximising monopsonist.



What happened to total wages received by the workers in the occupation?

A decrease from OW_2VQ_2 to OW_MUQ_3

B decrease from OW_2ZQ_1 to OW_MUQ_3

C increase from OW_1XQ_1 to OW_MYQ_1

D increase from OW_1XQ_1 to OW_MUQ_3

16 What is defined as 'the payment made to a factor of production over and above that necessary to keep the factor in its present use'?

A economic rent

B normal profit

C opportunity cost

D transfer earnings

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17 The table shows the values of the Gini coefficient for some countries in 2007.

	Gini coefficient
Namibia	74.3
Zambia	50.4
France	32.7
Denmark	24.7

Using the information above, which statement is correct?

A Income is distributed more equally in Denmark than France.

B Income is distributed more equally in Namibia than Zambia.

C Income per capita is higher in Zambia than Namibia.

D There are proportionally more people below the poverty line in Zambia than France.

18 The table gives details of the carrying capacity and number of British licensed registered ships over 100 tons between 2010 and 2014.

year	2010	2011	2012	2013	2014
carrying capacity (million tons)	17.3	16.6	17.7	17.6	15.2
number of ships	712	664	643	577	500

What can be concluded about British shipping between 2010 and 2014?

A The average size of British registered ships increased.

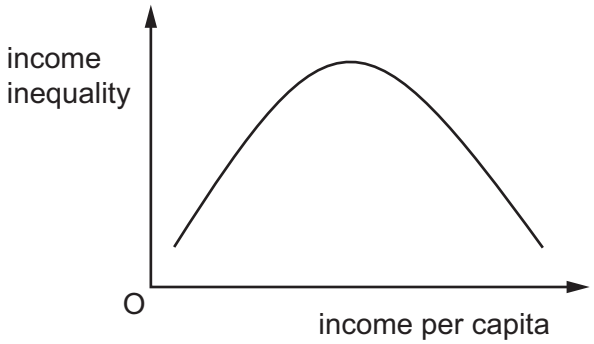
B The number of voyages made by British registered ships fell.

C The productivity of British registered ships peaked in 2012.

D The capacity of the British registered fleet fell continuously.

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19 Which curve is shown in the diagram?



A Kuznets curve

B Laffer curve

C Lorenz curve

D Phillips curve

20 Other things remaining equal, what will reduce the level of national income in an economy?

A a fall in planned savings

B a fall in the marginal propensity to import

C an increase in the average propensity to consume

D a reduction in the level of defence expenditure

21 An increase in government expenditure is financed by borrowing from the central bank.

Other things being equal, what will be the effect on the money supply?

A It will decrease.

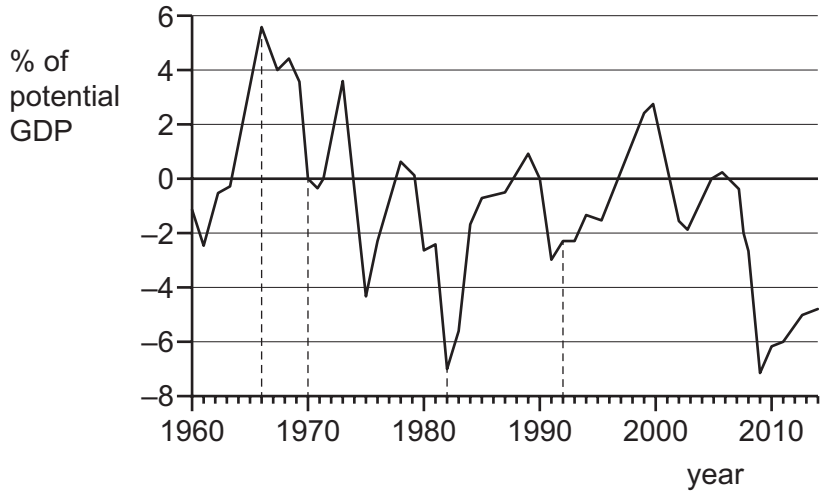
B It will increase by an amount equal to the increase in government expenditure.

C It will increase by more than the increase in government expenditure.

D It will remain unchanged.

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22 The diagram shows the output gap as a percentage of potential GDP for the US from 1960 to 2014.

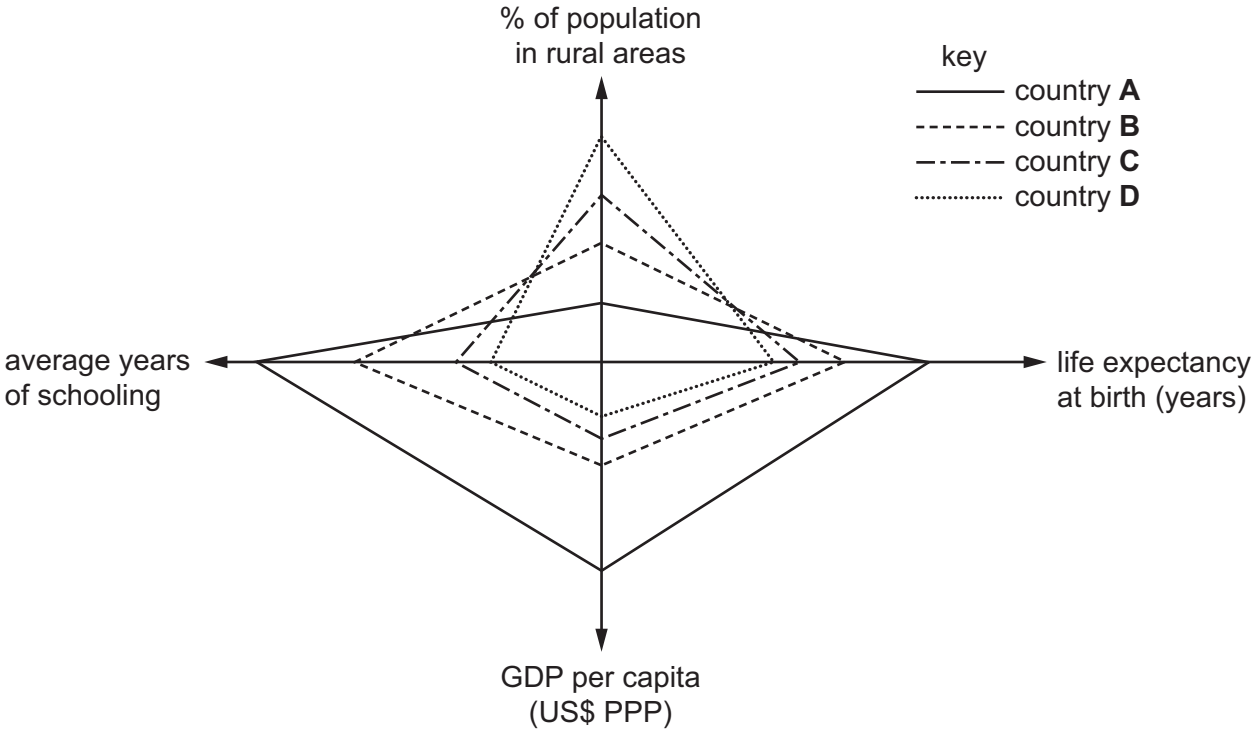


In which year was the output gap most likely to result in inflation?

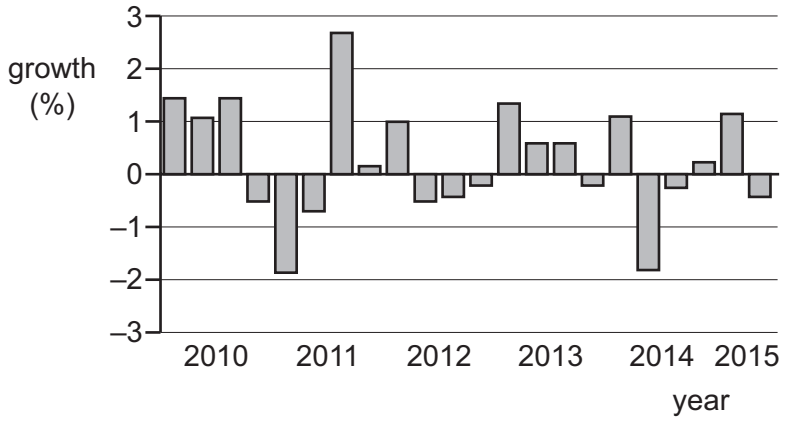
A 1966 **B** 1970 **C** 1982 **D** 1992

23 The diagram shows data on various aspects of four countries.

Which country is likely to be most developed?



24 The diagram shows quarterly changes in Japan's GDP from 2010 to 2015.



How many recessions occurred in Japan during this period?

A 2 **B** 3 **C** 5 **D** 10

25 Steps in calculating the working-age population are shown.

- .....1..... + ...2..... = labour force
- labour force + ...3..... = working-age population

Which row has the correct terms to complete gaps 1, 2 and 3?

	1	2	3
A	employed	underemployed	unemployed
B	employed	unemployed	not in labour force
C	not in labour force	underemployed	employed
D	unemployed	not in labour force	underemployed

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26 The graphs show consumer prices and unemployment for Ireland between 2002 and 2007.

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What can be concluded from the graphs?

A Between 2003 and 2004, unemployment and prices moved in the same direction.

B Prices were at their lowest in 2004.

C Prices rose continuously over the period.

D The number of unemployed workers fell over the period.

27 Which combination of policy measures is most likely to reduce unemployment?

A lowering both the exchange rate and domestic interest rates

B lowering the exchange rate and increasing direct taxation

C raising both the exchange rate and domestic interest rates

D raising the exchange rate and increasing direct taxation

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

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

A to allow automatic stabilisers to work

B to keep output at the full employment level

C to maintain a constant balanced budget

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

29 Manufacturing output in China fell to the lowest for 15 months in June 2015. The government wanted to stimulate the economy.

What would be most likely to help the economy recover?

A a decrease in government spending

B a decrease in unemployment

C an increase in income tax

D an increase in interest rates

30 The economy of a country is simultaneously experiencing a balance of payments deficit, a budget deficit, demand-pull inflation and unemployment. The government decides to cut personal income taxes.

What is most likely to be its main macroeconomic objective?

A to improve the balance of payments position

B to reduce the budget deficit

C to reduce the level of unemployment

D to reduce the rate of inflation

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

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1 When will an economic activity create a net social benefit?

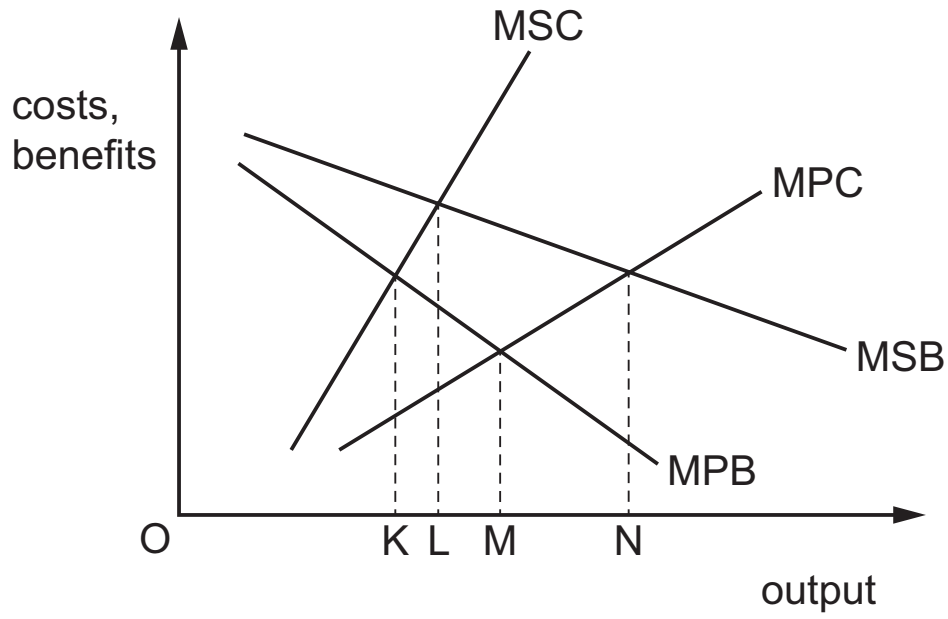
A when (private benefit + external benefit) – (private cost + external cost) is negative

B when (private benefit + external benefit) – (private cost + external cost) is positive

C when (private benefit + private cost) – (external benefit + external cost) is negative

D when (private benefit + private cost) – (external benefit + external cost) is positive

2 The diagram shows the private and social costs and benefits of production in a free market that result in market failure.



Which change in output would be necessary to overcome this market failure?

A from K to M

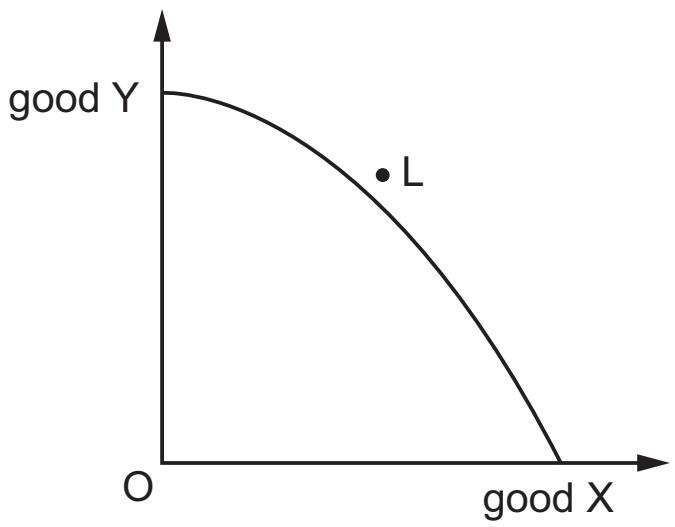
B from M to N

C from M to L

D from N to L

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3 The diagram shows the production possibility curve for an economy.



What might make it possible for consumers in this economy to consume the combination of goods X and Y indicated by the point L?

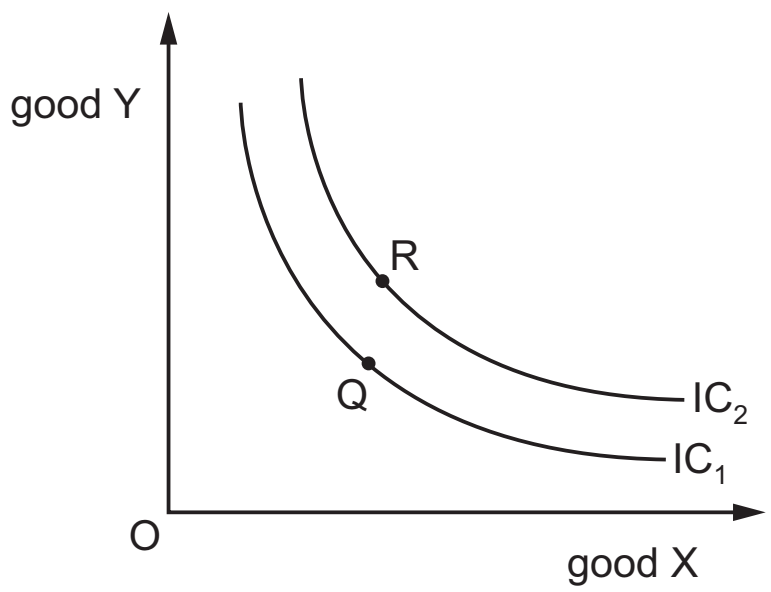
A a reduction in unemployment

B the achievement of productive efficiency

C the elimination of a monopoly in the production of good X

D trade with other economies

4 The diagram shows two indifference curves for a consumer.



What can be concluded if the consumer's equilibrium moves from Q to R?

A The consumer is acting rationally.

B The consumer's money income is unchanged.

C The opportunity cost of good Y is constant.

D The price of good X has risen.

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5 When the price of a good falls the effect on the quantity demanded is the result of an income effect and a substitution effect.

Which statement about these effects is correct?

A For inferior goods the income effect and the substitution effect work in the same direction.

B For inferior, but not Giffen, goods the income effect outweighs the substitution effect.

C For normal goods the income effect and substitution effect work in the same direction.

D For normal goods the income effect outweighs the substitution effect.

6 Where is the long-run equilibrium output of a perfectly competitive firm?

A where average costs are at a minimum

B where average costs are falling

C where marginal costs are at a minimum

D where marginal costs are falling

7 A firm estimates that, all else remaining unchanged, an increase in its output will result in an equal proportionate increase in its revenue.

What can be concluded from this?

A The demand curve for the firm's product is horizontal.

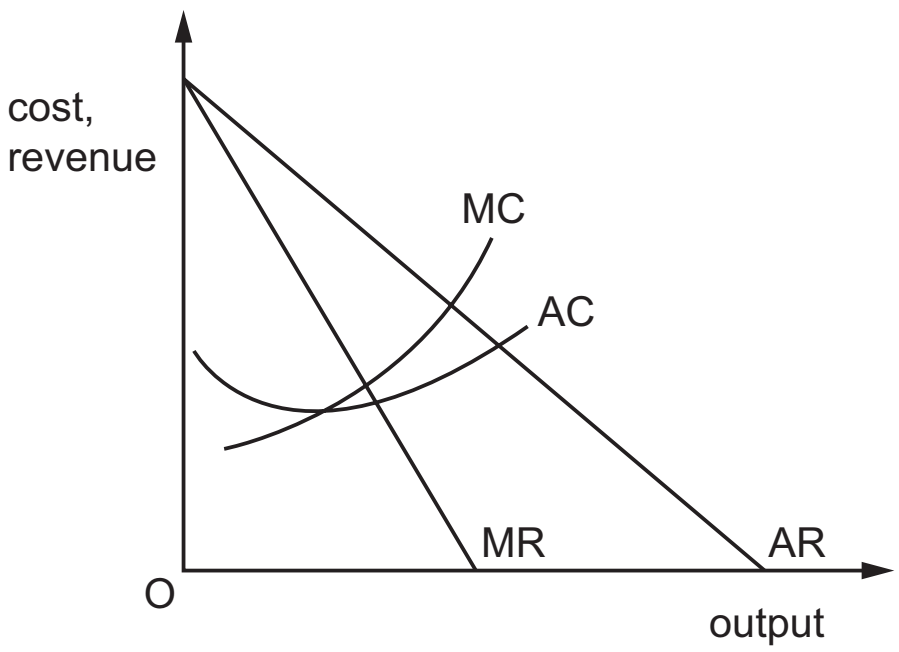
B The firm operates in a monopolistically competitive market.

C The price elasticity of demand for the firm's product is –1.

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

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



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

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

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

9 What could be a reason for the existence of small firms in various industries?

A a low minimum efficient scale of production

B greater scope for specialisation and division of labour

C the need to diversify in order to reduce risk

D the principal-agent problem

10 A firm in monopolistic competition that is producing at its profit maximising output is making a loss in the short run.

For it to continue in production, what must be correct about its average revenue (AR), marginal revenue (MR) and average variable cost (AVC)?

A AR = MR; AVC > AR

B AR = MR; AVC < AR

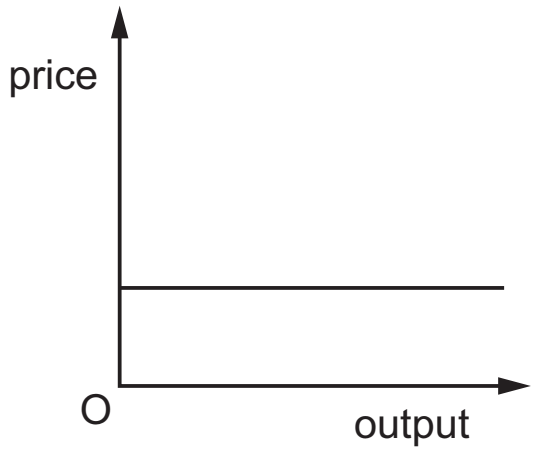
C AR > MR; AVC > AR

D AR > MR; AVC < AR

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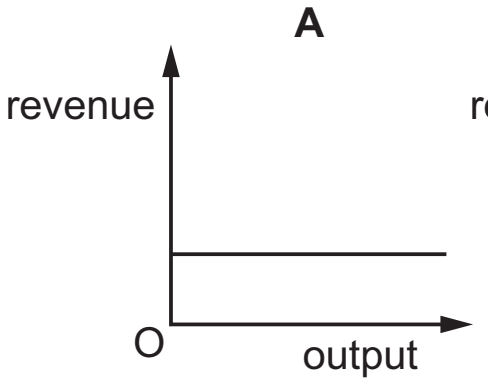
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11 The diagram shows the demand curve for a firm's product.

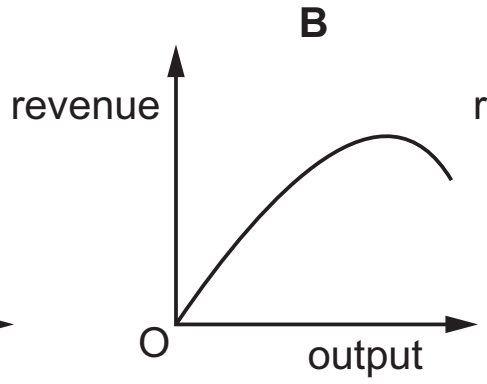


Which diagram shows the shape of the firm's total revenue (TR) curve?

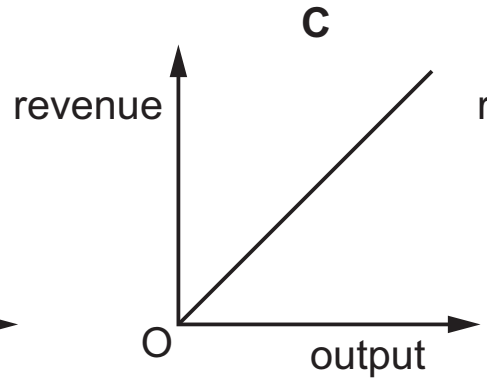
A



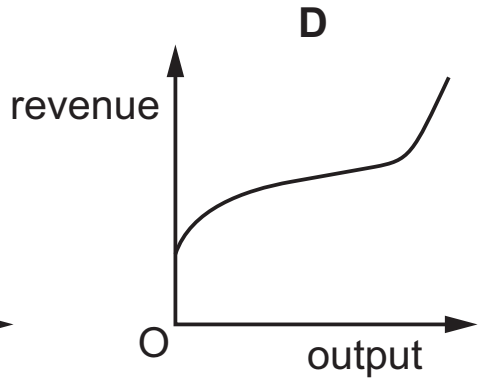
B



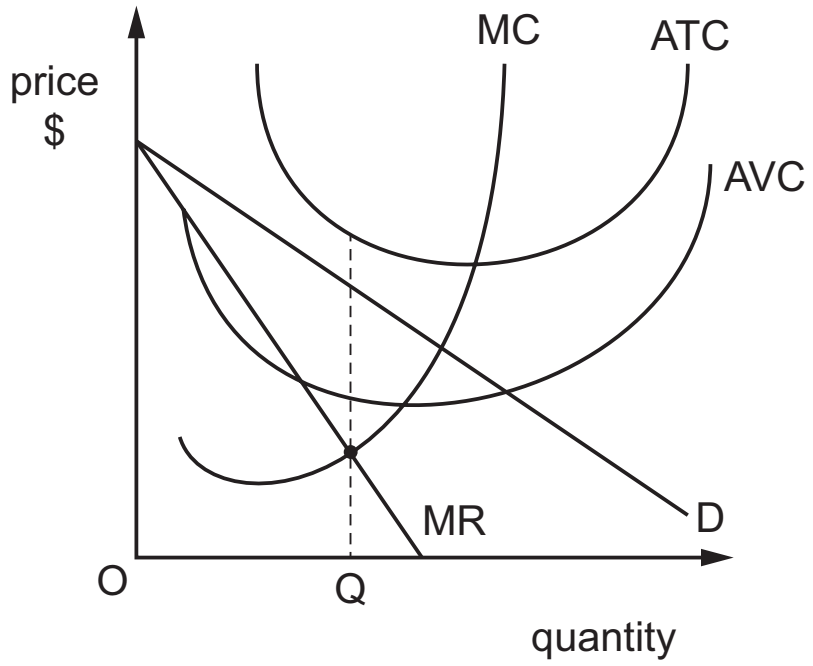
C



D



12 The diagram shows a firm in monopoly producing OQ units.



Which outcome can be observed in the diagram?

A loss minimisation

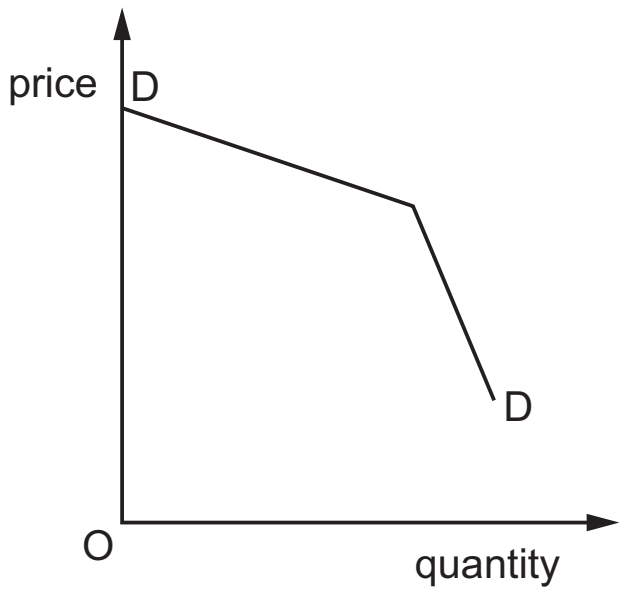
B profit satisficing

C revenue maximisation

D unit cost minimisation

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13 Which feature of oligopoly is being assumed when the demand curve for an individual firm is as shown?



A price discrimination

B price leadership by the dominant firm

C interdependence between firms

D collusion between firms

14 Which statement is most likely to explain why a government decides to increase the highest rates of tax on personal income?

A It expects total tax revenue to be unaffected by the policy change.

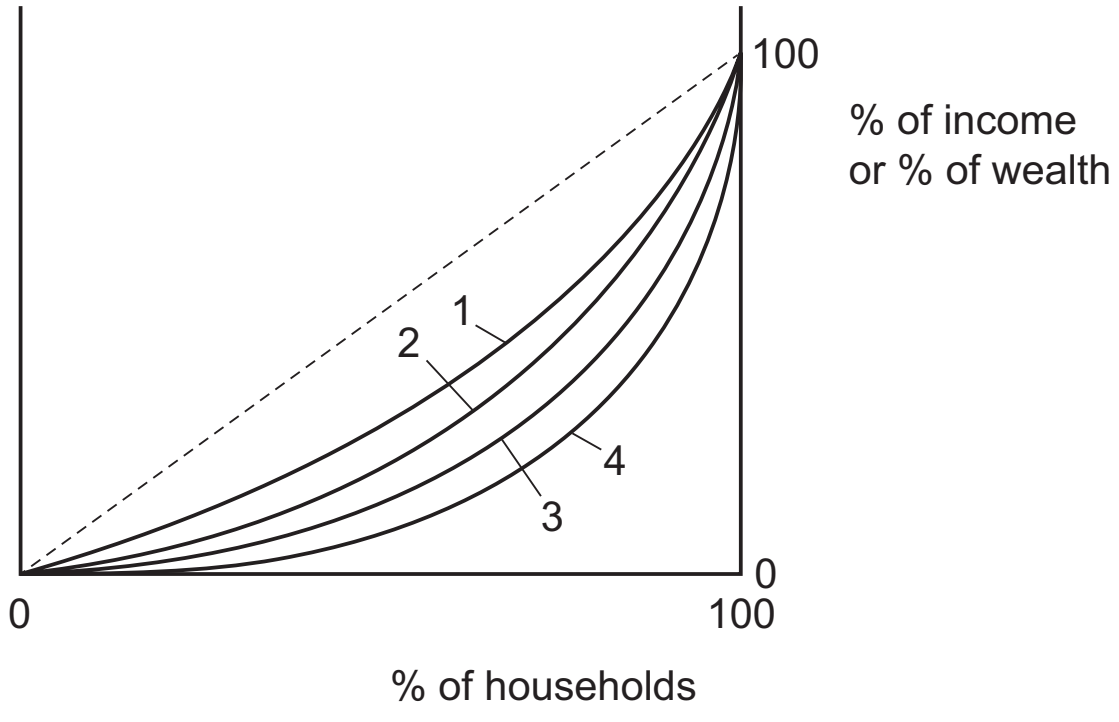
B It is concerned about the possibility of emigration by some high earning individuals.

C It regards equity considerations as being more important than efficiency ones.

D It wishes to switch the emphasis of its tax system from direct to indirect taxation.

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15 The Lorenz curves in the diagram show different distributions of income and of wealth.



Income in a country is more equally distributed than wealth.

In a period the distribution of income becomes more unequal but the distribution of wealth becomes more equal.

Which movement would show the effects of these changes on the distribution of income and wealth within the country?

	distribution of income	distribution of wealth
A	shift from curve 1 to curve 2	shift from curve 4 to curve 3
B	shift from curve 2 to curve 1	shift from curve 3 to curve 4
C	shift from curve 3 to curve 4	shift from curve 2 to curve 1
D	shift from curve 4 to curve 3	shift from curve 1 to curve 2

16 A government wishes to discourage tax avoidance.

Which policy to achieve this would be an example of the behavioural approach of nudge theory?

A compelling direct tax deduction by employers

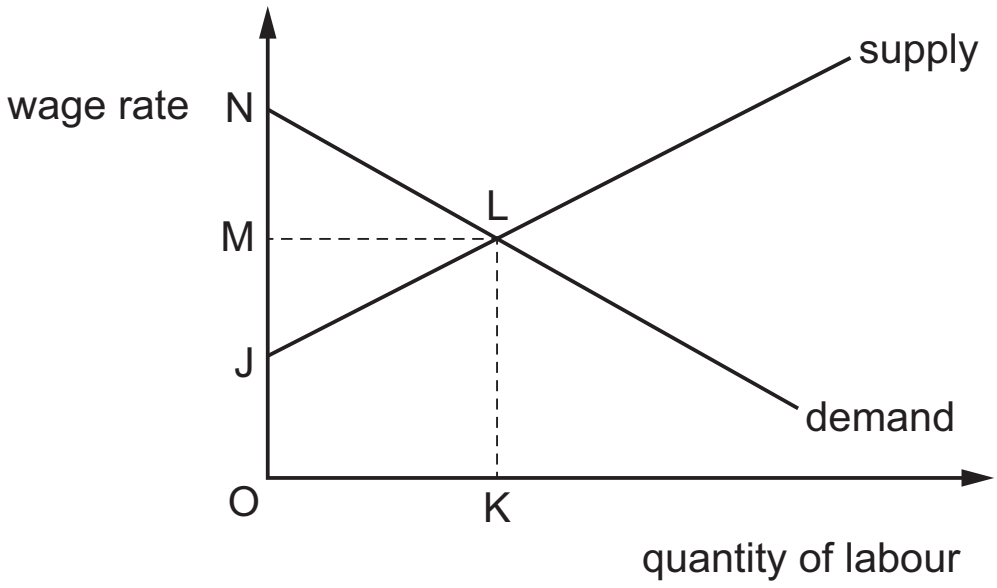
B making random inspections of individual tax records

C providing information on how the tax is spent by the government

D using penalties, such as fines and imprisonment for tax avoidance

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17 The diagram shows the supply and demand situation in a particular labour market.



When the market is in equilibrium, which areas measure the economic rent and transfer earnings received by employees?

	economic rent	transfer earnings
A	JLN	OKLJ
B	JML	OKLJ
C	NML	OKLM
D	OKLM	NML

18 In 2015 a company drilling for oil wished to reduce its workforce because of a fall in the price of oil. The workers' trade union opposed the proposal.

Which situation would have helped the trade union in the negotiations?

A Capital and labour were close substitutes.

B The cost of labour had been a small percentage of total cost.

C The demand for oil had been price inelastic.

D There had been a large supply of labour.

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

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

B a reduction in interest rates

C a reduction in the level of direct taxation

D the provision of retraining schemes

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20 What is typically associated with a relatively low level of income per capita in a country?

A low exports

B low inflation

C low investment

D low population

21 During a certain period, a country with a constant population expands its output per head. It also experiences a significant increase in river and atmospheric pollution.

In the absence of any other changes, which measure would show a decrease in living standards?

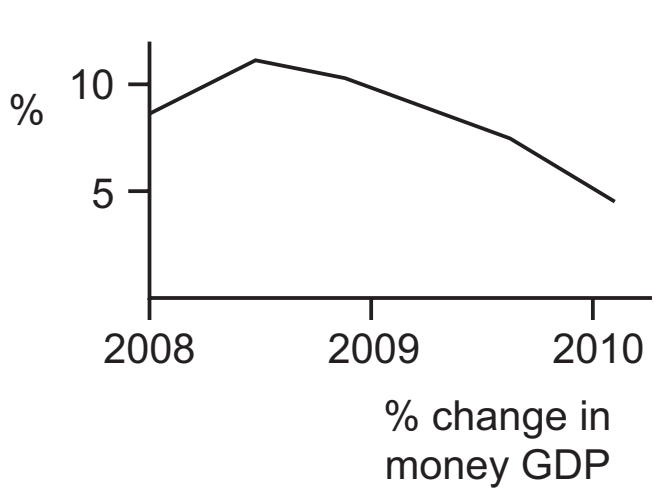
A Gross Domestic Product per head

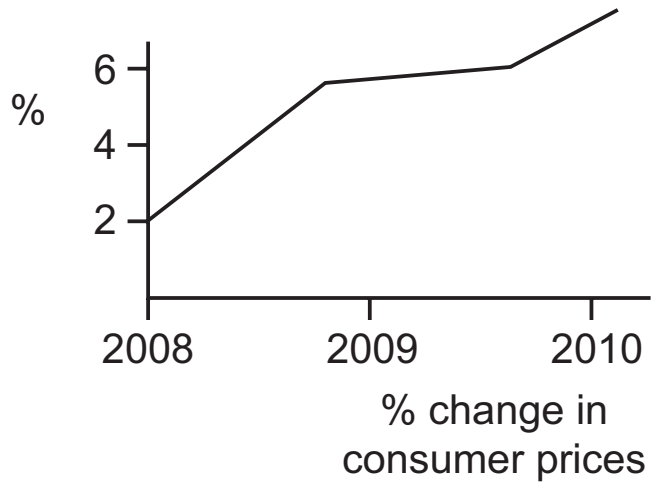
B Gross National Product per head

C Human Development Index

D Measure of Economic Welfare

22 The graphs below show percentage changes in money GDP and consumer prices in a country between 2008 and 2010.





Which conclusion may be drawn from the graphs?

A Between 2009 and 2010 money GDP fell but consumer prices continued to rise.

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

C In real terms GDP grew throughout the period.

D When consumer prices rose, money GDP fell.

23 Why do some economists suggest there may be positive benefits from frictional unemployment?

A A short spell of frictional unemployment may lead workers to become discouraged.

B Frictional unemployment allows time for retraining in newly emerging skills.

C Job search during frictional unemployment may lead to a better match of workers and jobs.

D The psychological effects of frictional unemployment are less than the economic effects.

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24 The table shows the levels of consumption expenditure for given family incomes.

disposable family income ($)	consumption expenditure ($)
2000	2150
3000	3100
4000	4000
5000	4850
6000	5650
7000	6380

Over the range of disposable income shown, as income rises what happens to the marginal propensity to consume?

A It falls and then rises.

B It falls continuously.

C It rises and then falls.

D It rises continuously.

25 Which could cause the official statistics for the national income per head of a developing country to overstate the true level of economic well-being of its inhabitants?

A if there is dependence on barter in internal trade

B if subsistence agriculture dominates total economic activity

C if services are an important component of exports

D if there is extreme income inequality

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26 The table shows some United Nations population statistics for 2010 and estimates for 2050.

types of region	total population (m) 2010	total population (m) 2050	urban population (m) 2010	urban population (m) 2050	population urbanised (%) 2010	population urbanised (%) 2050
more developed regions	1237	1275	930	1100	75	86
less developed regions	5671	7875	2556	5186	45	66
least developed regions	855	1673	249	914	29	55

Which relationship can be confirmed from the table?

A The least developed regions have the largest urban populations, actual or predicted, in both years.

B The more developed regions have the lowest growth rate of urbanisation between 2010 and 2050.

C The type of region with the greatest total population in 2010 is predicted to have the greatest rate of population growth by 2050.

D The type of region with the greatest urban population in 2010 is predicted to have the highest level of urbanisation by 2050.

27 In 2015, the World Bank agreed to give a loan of $650 m to Angola to help stabilise the economy. The Bank said Angola needed to have a fiscal policy that would encourage the diversification of its economy.

Which policy would be consistent with this requirement?

A the lowering of interest rates to encourage investment in solar power

B the relaxing of regulations to allow the development of a new hydro-power project

C the spending of the loan supporting its oil industry after oil prices collapsed

D the subsidising of a partnership with a French company to establish a chain of tourist hotels

28 A country with demand-pull inflation decides to fix its exchange rates against other currencies above the purchasing power parities.

What is likely to happen to the macroeconomic indicators shown?

	interest rate	inflation rate	current account balance
A	decrease	decrease	improve
B	decrease	increase	worsen
C	increase	decrease	worsen
D	increase	increase	improve

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29 In the short run, which policy measure would tend to reduce a country's balance of payments deficit but increase its inflation rate?

A a decrease in the level of import tariffs

B an appreciation of the country's currency

C an increase in the level of indirect taxes

D a reduction in government spending

30 In an economy with unemployed resources the government increases its expenditure.

When would this be least likely to increase national income by the full multiplier effect?

A when the level of autonomous private investment is increased

B when the marginal propensity to save is reduced

C when the government allows money supply to expand

D when the level of interest rates rises

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ECONOMICS **9708/33**

Paper 3 Multiple Choice **May/June 2017**

1 hour 15 minutes

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

8085147248

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.

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1 When will an economic activity create an external cost?

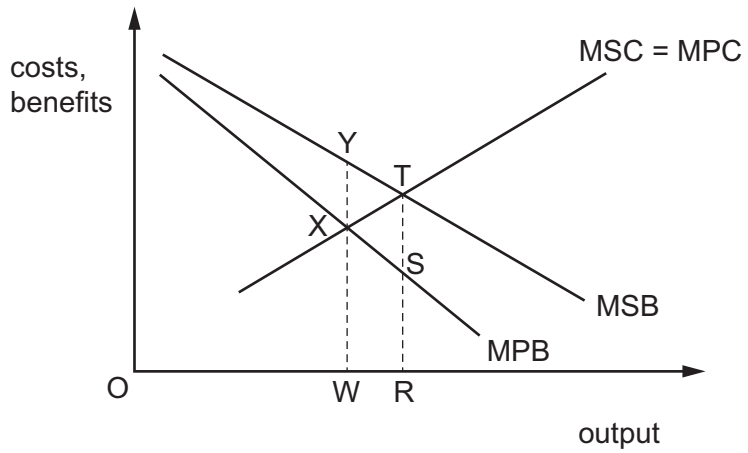
A when its social cost minus its private cost is negative

B when its social cost minus its private cost is positive

C when its social cost minus its social benefit is negative

D when its social cost minus its social benefit is positive

2 A government is planning to intervene in a free market to fix output at the level that maximises the economic welfare of society.



To achieve its objective, what should the government introduce?

A a subsidy of TS

B a subsidy of YX

C a tax of TS

D a tax of YX

3 In a two-person economy, X has an income of $100, whereas Y has an income of $50.

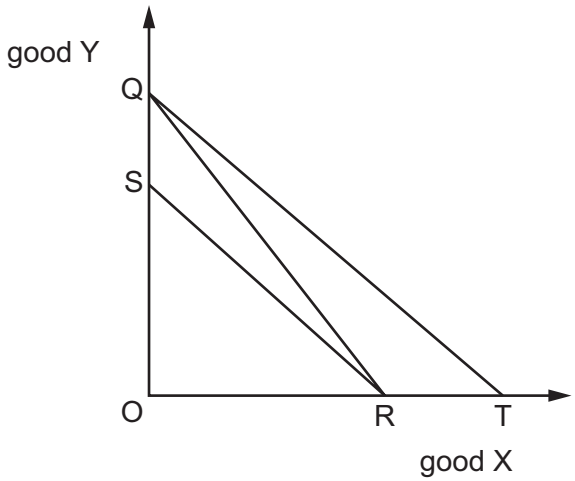
According to the Pareto criterion, which income change would constitute a definite increase in the economic welfare?

	X's income ($)	Y's income ($)
A	75	75
B	85	70
C	95	100
D	130	50

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4 The diagram shows three budget lines, QR, QT and SR.

QR is a consumer's initial budget line.



Which combination of changes could cause the budget line to shift to SR?

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

5 When a firm increases all its inputs by 100%, its output increases by 50%.

What does this illustrate?

A decreasing returns to scale

B economies of scale

C the law of diminishing returns

D the law of variable proportions

6 The demand curve for a good has unit price elasticity throughout its length.

Which statement about marginal revenue is correct?

A It always has a negative value.

B It decreases continuously as price decreases.

C It is always zero.

D It always has a constant positive value.

7 What is true about the average fixed costs of a firm?

A They fall as output rises at first, but then rise.

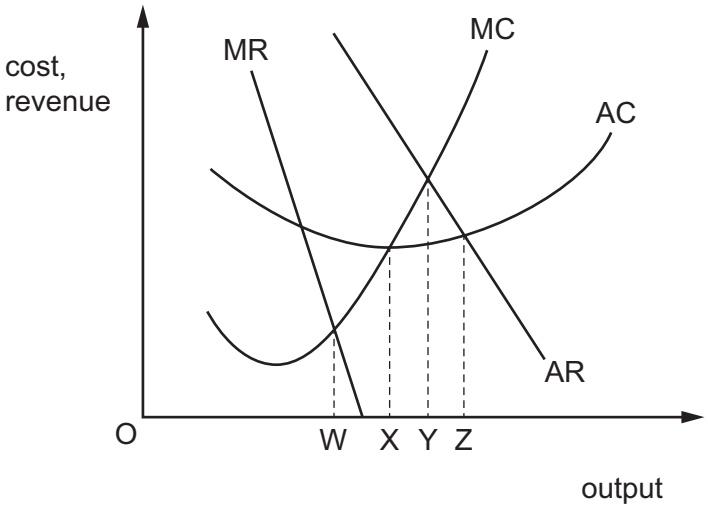
B They fall continuously as output rises.

C They increase continuously as output rises.

D They remain unchanged at all output levels.

8 In the diagram

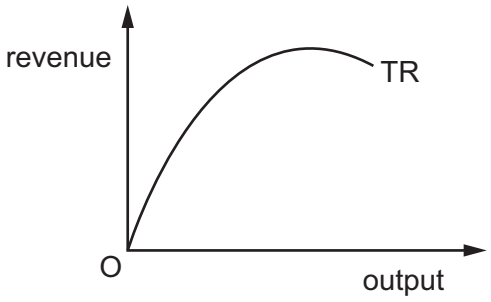
MC = marginal cost; AC = average cost; MR = marginal revenue; AR = average revenue.



What will be the output of a profit-maximising firm whose cost and revenue functions are shown above?

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

9 The diagram shows a firm's total revenue curve.



At the curve's highest point

A marginal revenue is equal to marginal cost.

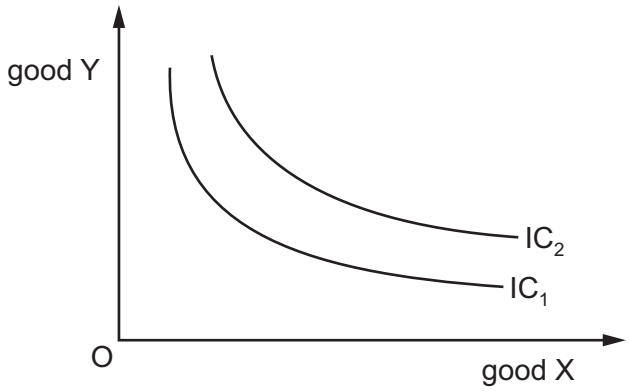
B average revenue is equal to average cost.

C marginal revenue is equal to average revenue.

D marginal revenue is zero.

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10 The diagram shows two indifference curves for a consumer.



What necessarily differs between IC_1 and IC_2?

A level of income

B level of satisfaction

C price of good X

D price of good Y

11 Firms in a market advertise their products with different brand names. Some make more profit than others in the short run but all make normal profit in the long run.

Which market structure is this?

A perfect competition

B monopolistic competition

C oligopoly

D monopoly

12 Which feature of an oligopoly can be explained by the kinked demand curve model?

A collusion between firms in the determination of the industry price

B price leadership by one firm in the industry

C the ability of firms to earn abnormal profits in the long run

D the reluctance of firms to alter prices

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13 The table shows percentage (%) market share of smartphone operating systems (OS) for Great Britain (GB) and the United States (US) in January 2012 and July 2015.

OS system	GB 2012 (%)	GB 2015 (%)	US 2012 (%)	US 2015 (%)
V	49.3	54.3	43.0	65.6
W	15.7	1.0	3.3	0.4
X	29.3	32.7	50.6	30.1
Y	2.4	12.0	2.1	3.8
Z	3.3	0.0	1.0	0.1

What can be concluded from the table about changes between 2012 and 2015?

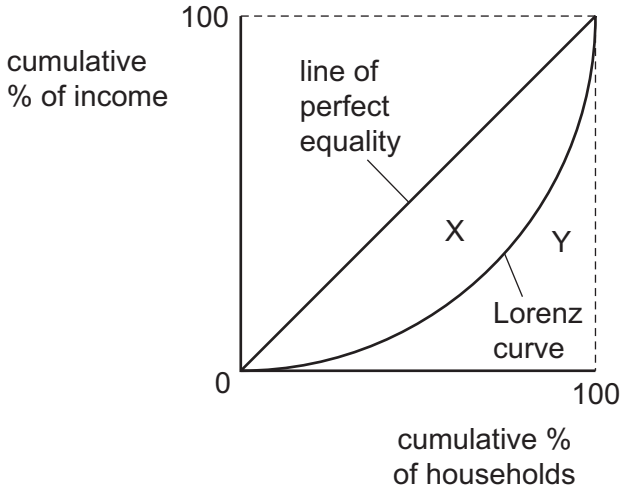
A The dominant firm in each country increased its market power.

B The firms counted in the three-firm concentration ratio remained the same in both countries.

C The three-firm concentration ratio decreased in both countries.

D The three-firm concentration ratio showed the same trend in both countries.

14 The diagram shows a Lorenz curve, with two areas, X and Y, identified.



How is the corresponding Gini coefficient calculated?

A X divided by (X plus Y)

B X plus Y divided by X

C X plus Y divided by Y

D Y divided by (X plus Y)

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15 The government of a country wants to achieve a more equitable distribution of income.

Which combination of measures is likely to be most effective in achieving this aim?

	tax-free income allowance	welfare benefits
A	decrease	reduce means-tested benefits
B	decrease	reduce universal benefits
C	increase	increase means-tested benefits
D	increase	increase universal benefits

16 A shopkeeper earns $75 per week, but he would be willing to carry on working in his shop for up to $25 per week less. Therefore, $50 is his level of

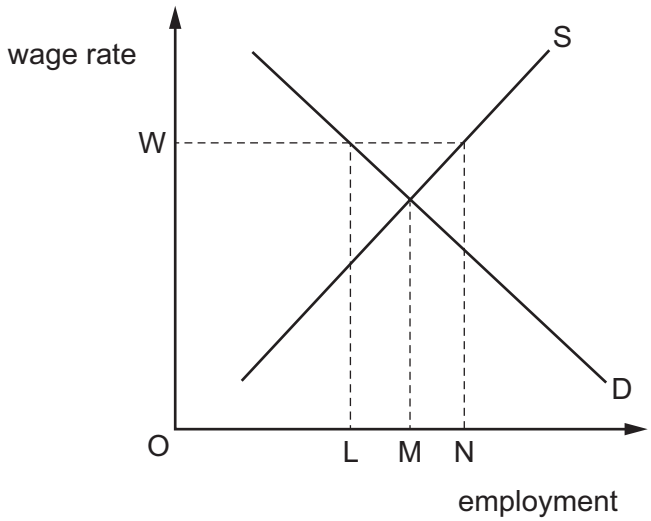
A marginal revenue product.

B producer's surplus.

C economic rent.

D transfer earnings.

17 The diagram shows the supply and demand for labour in an industry.



Initially the industry's labour market is in equilibrium.

What effect will the introduction of a minimum wage OW have on the level of employment in the industry?

A It will decrease by LM.

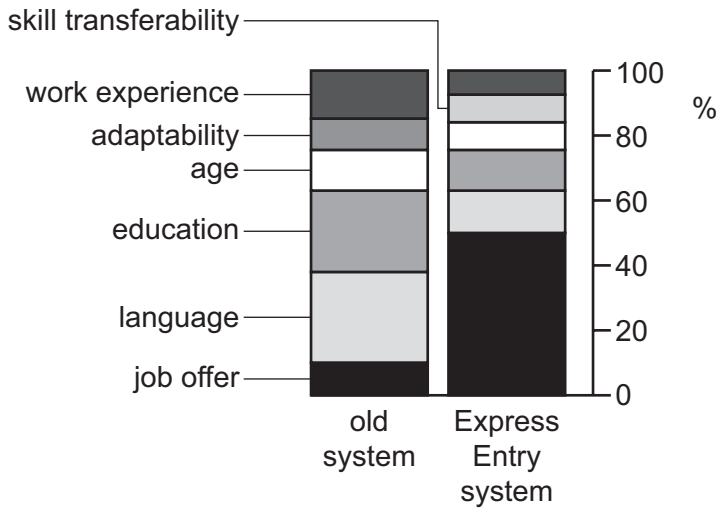
B It will decrease by LN.

C It will increase by LN.

D It will increase by MN.

18 Immigrants are awarded entry points according to their ability to fulfil criteria set by the Canadian Government. A new Express Entry system for the immigration of skilled workers was introduced. The diagram shows the change in the relative importance or weighting given to these criteria between the old and new systems.

Criteria weighting (%) for skilled worker immigration



What can be concluded from the diagram?

A Canada intended to maintain the same level of skilled immigrants under both systems.

B Canada wanted a smaller number of highly educated skilled immigrants.

C Certainty of employment for skilled immigrants was made the main criterion.

D Skilled immigrants needed to have fewer years of work experience than previously.

19 It has been observed that increased growth in consumer spending results in an increase in investment by firms.

Which principle of macroeconomic theory explains this relationship?

A the accelerator

B the liquidity trap

C the marginal efficiency of capital

D the multiplier

20 What is the value of the multiplier in an economy with no government where the marginal propensity to save is $\frac{1}{6}$ and the marginal propensity to import is $\frac{1}{3}$?

A $\frac{1}{2}$ **B** $1\frac{1}{2}$ **C** 2 **D** 3

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21 The table refers to an open economy with a government sector.

In which situation is the economy in disequilibrium?

	C	I	S	G	T	X	M
A	400	150	80	150	200	120	100
B	450	150	100	150	230	120	90
C	480	150	110	150	210	120	100
D	520	150	120	150	210	120	90

22 How do commercial banks create money?

A by cashing cheques for their customers

B by increasing their reserves at the central bank

C by making loans to customers

D by charging customers for banking services

23 What are the variables identified on the axes of a Kuznets curve diagram?

	vertical (Y) axis variable	horizontal (X) axis variable
A	cumulative % of income	cumulative % of families
B	measure of inequality	income per capita
C	measure of standard of living	economic growth rate
D	tax revenue	tax rate

24 A developing country experiences economic growth.

The economic growth is most likely to lead to economic development when it

A causes rapid rural to urban migration.

B is based on the extraction of mineral raw materials.

C mainly rewards the country's entrepreneurs.

D results from the expansion of labour-intensive industries.

25 Between 2014 and 2015 the Polish economy expanded at a rate of 3.3%.

What necessarily follows from this statement?

A The cost of living rose by 3.3%.

B The output of the industrial sector rose by 3.3%.

C There was increased demand which caused inflation.

D There was positive economic growth.

26 The graphs indicate economic performance in a country between 2011 and 2014.



Which conclusion may be drawn from the graphs?

A Between 2011 and 2012 industrial production and GDP fell but prices rose.

B Between 2012 and 2013 the rates of growth of industrial production, GDP and prices all increased.

C GDP and industrial production were at their lowest in 2012.

D At no time between 2011 and 2014 did industrial production, GDP or prices fall.

27 What will result in the short run from rising unemployment in an economy?

A The government's budget deficit will fall.

B Any existing inflationary pressure will be reduced.

C Potential output will fall.

D The economy's production possibility curve will move inwards.

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28 In 2015 a political party proposed a policy of quantitative easing (the creation of money by the central bank).

When would such a policy be least likely to destabilise the macro economy in the short run?

A when the economy was experiencing a high level of inflation

B when the economy had price stability but there was full employment of the labour force

C when there existed a deep recession with high levels of unemployment

D when there was full employment and a current account balance of payments deficit

29 In 1979 in the UK the marginal rate of income tax imposed on the highest earners was 83% which increased to 98% if income was received from interest or dividends. By 1989 the highest marginal rate was reduced to 40%. Despite this reduction, the tax revenue raised from the highest earners increased substantially.

Which theoretical concept illustrates this relationship between tax rates and tax revenue?

A the J curve

B the Laffer curve

C the Marshall-Lerner condition

D the Phillips curve

30 Which factor has been least associated with the rapid growth of many economies recently?

A high savings rates as a percentage of national income

B more efficient mechanisms for transmitting funds from savers to investors

C more emphasis on detailed government planning

D more openness to foreign trade and investment

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