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CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Advanced Level

ECONOMICS **9708/03**

Paper 3 Multiple Choice (Extension)

October/November 2003

1 hour

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

READ THESE INSTRUCTIONS FIRST

Write in soft pencil.
Do not use staples, paper clips, highlighters, 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.

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 **12** printed pages.

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[Turn over

1 An economy is operating at a point inside its production possibility curve.

Why is this described as inefficient?

A Individuals are enjoying too much leisure.

B Labour and capital are combined in the wrong proportions.

C More of one good can be produced without decreasing production of another.

D There are shortages of some goods and an excess supply of others.

2 A utility-maximising consumer spends his disposable income on food and clothing. When his weekly income is $40 he buys 5 units of food at a unit price of $5. His marginal utility from food consumption is 10 utility units.

If the price of a clothing unit is $0.50, the consumer's marginal utility from clothing is

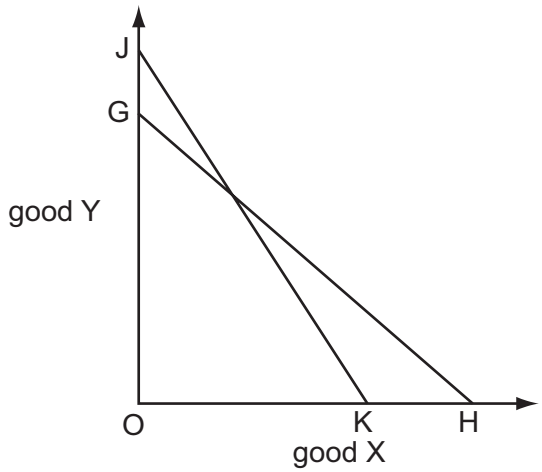
A equal to that derived from food.

B $\frac{1}{10}$ utility unit.

C 1 utility unit.

D 10 utility units.

3 In the diagram a consumer's budget line shifts from JK to GH.



Which of the following **must** be correct?

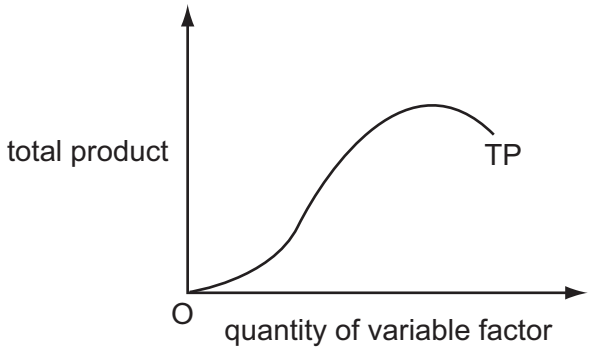
A There has been a change in the consumer's money income.

B There has been a change in the consumer's real income.

C The prices of both goods have changed.

D The price of good Y has increased relative to the price of good X.

4 The diagram shows the total product curve for a single variable factor, assuming all other factor inputs are held constant.



In which order do the total product (TP), average product (AP) and marginal product (MP) begin to decrease as the input of the variable factor is increased?

	first	second	third
A	AP	MP	TP
B	AP	TP	MP
C	MP	AP	TP
D	MP	TP	AP

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

number of workers	1	2	3	4	5	6	7
marginal revenue product ($)	135	140	145	150	145	140	135

If the wage is $140, what is the maximum number of workers the firm will employ?

A 2 **B** 4 **C** 5 **D** 6

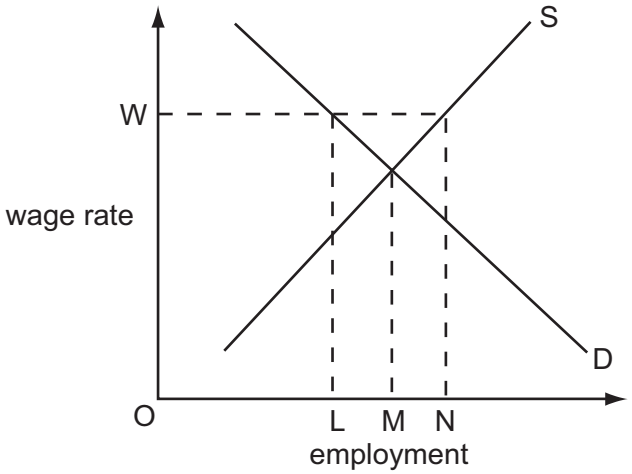
6 To increase the labour force from 30 to 31 workers, an entrepreneur is forced to increase the daily wage rate from $40 to $42.

What is the marginal cost of labour per day?

A $2 **B** $42 **C** $62 **D** $102

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7 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?

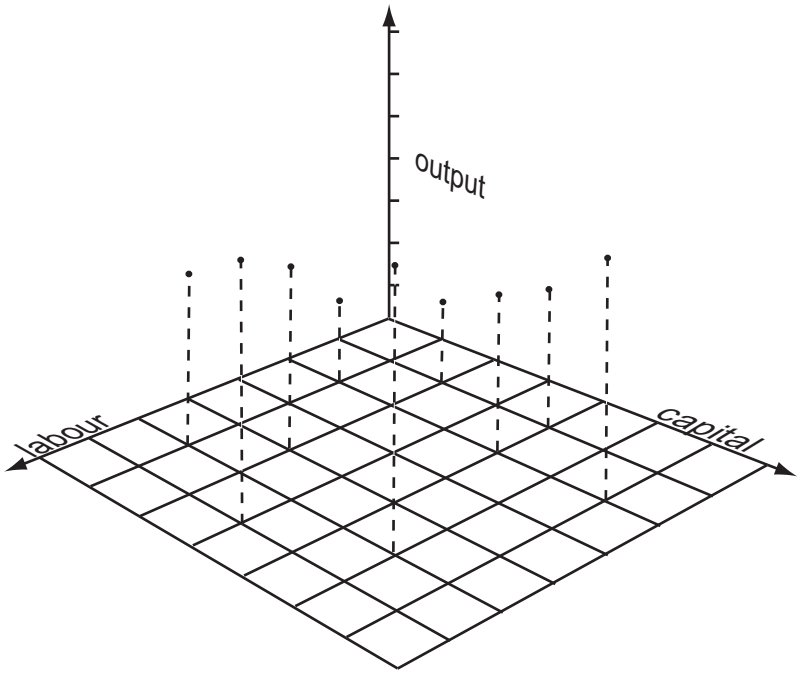
A It will decrease by an amount LM.

B It will decrease by an amount LN.

C It will increase by an amount LN.

D It will increase by an amount MN.

8 In the diagram the heights of the vertical broken lines show levels of output corresponding to different combinations of labour and capital.



What does the diagram show?

A a cost function

B a long-run production function

C an input function

D a production possibility function

9 An entrepreneur takes out a $500 000 loan at a rate of interest of 10 %, and invests a further $500 000 of his own funds to set up a new firm.

In the first year he pays himself a salary of $40 000.

The rate of interest he could have obtained by investing his funds elsewhere is 8 %, and the wage he could have earned in alternative employment is $30 000.

By how much will an economist's calculation of the firm's first year costs exceed an accountant's calculation?

A $20 000 **B** $30 000 **C** $40 000 **D** $50 000

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

units of X	1	2	3	4	5	6
marginal cost ($)	40	30	26	34	50	90

Given that the total fixed cost is $30 what is the level of output that minimises average total cost?

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

11 Which statement about the long-run average cost curve of a firm is correct?

A It falls continuously because of economies of scale.

B It passes through the minimum points of the firm's short-run average cost curves.

C It assumes that factor input proportions are held constant as output increases.

D It indicates the minimum average cost at which each level of output can be produced.

12 The proportion of total employment in an economy accounted for by small firms increases.

Which explanation for this is **least** likely to be valid?

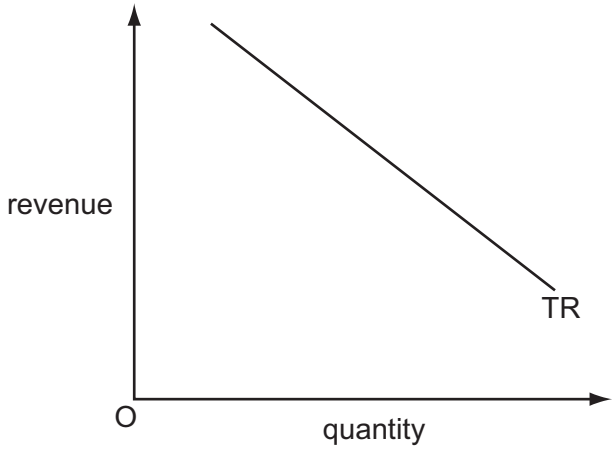
A a trend towards the use of sub-contractors to produce specialised components

B growing technical diseconomies of scale in manufacturing

C growth of the manufacturing sector and a decline in services

D the opening up of market niches as real incomes rise

13 The diagram shows the relationship between a firm's total revenue and the quantity of goods sold.



What is the price elasticity of demand for the good?

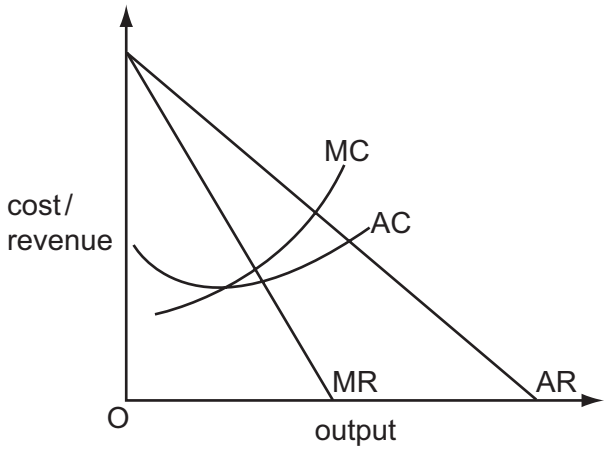
A zero

B between zero and one

C one

D between one and infinity

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



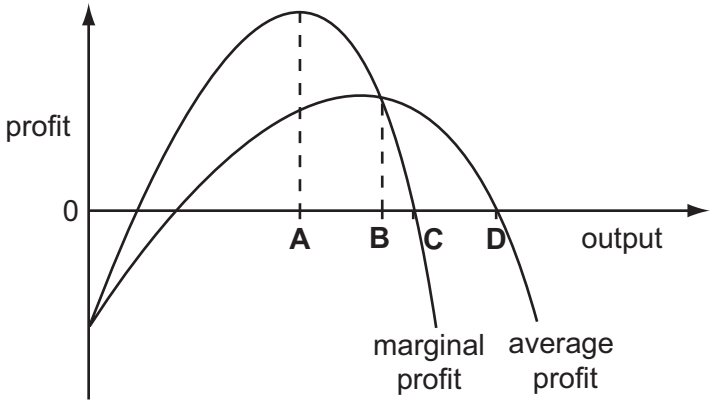
The firm changes its objective from profit maximisation to sales revenue maximisation.

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

15 The diagram shows how a firm's average profit and marginal profit vary at differing levels of output.

At which level of output does the firm maximise total profit?



16 When will a firm in a perfectly competitive industry cease to produce in the short run?

A if it earns less than normal profits

B if total revenue is less than the total cost of production

C if marginal revenue is less than the average total cost of production

D if total revenue is less than the total variable cost of production

17 By reallocating resources an economy produces more of one good but no less of other goods.

What change has necessarily occurred?

A improved technology

B improved efficiency

C increased equity

D increased employment

18 A regressive tax is defined as one which requires

A all taxpayers to pay the same absolute amount of their income in taxation.

B high income earners to pay less in taxes than low income earners.

C high income earners to pay more in taxes than low income earners.

D high income earners to pay a lower proportion of their income in taxes than low income earners.

19 Over a given period the nominal value of a country's national income increased by 10 % and its value of output by 12 %.

What could explain this?

A The country's money supply fell by 2 %.

B There was an increase in the income velocity of circulation.

C There was an increase in the balance of trade deficit.

D The country's general price level fell by 2 %.

20 An economy is operating initially at its natural rate of unemployment.

According to monetarist theory, what will be the effect on unemployment in the short run and in the long run of an unanticipated increase in the money supply?

	short run	long run
A	no change	no change
B	no change	reduction
C	reduction	no change
D	reduction	reduction

21 The table shows the level of consumption at various levels of national income for a closed economy with no government.

national income ($ million)	consumption ($ million)
10	11
12	12
14	13
16	14
18	15
20	16

What happens to the average and marginal propensities to consume as income increases?

	average propensity to consume	marginal propensity to consume
A	constant	constant
B	falls	constant
C	falls	falls
D	rises	falls

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22 Out of any addition to national income, 20 % is spent on imports, 25 % is paid in taxes, 5 % is saved and the rest is spent on domestically produced goods.

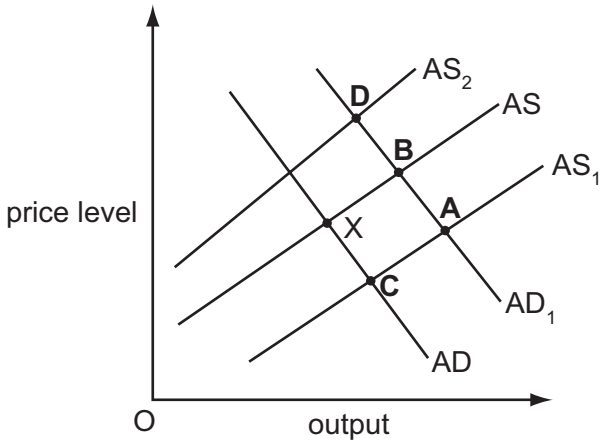
What is the value of the multiplier?

A 20 **B** 5 **C** 2 **D** 0.5

23 An economy is currently in equilibrium at point X.

Government expenditure is increased on retraining programmes for those out of work. This raises the productivity of the trainees.

Which point shows the new equilibrium in the economy?



24 Which method of financing a government deficit will leave the money supply unchanged?

A the sale of government securities to the central bank

B the sale of government securities to the commercial banks

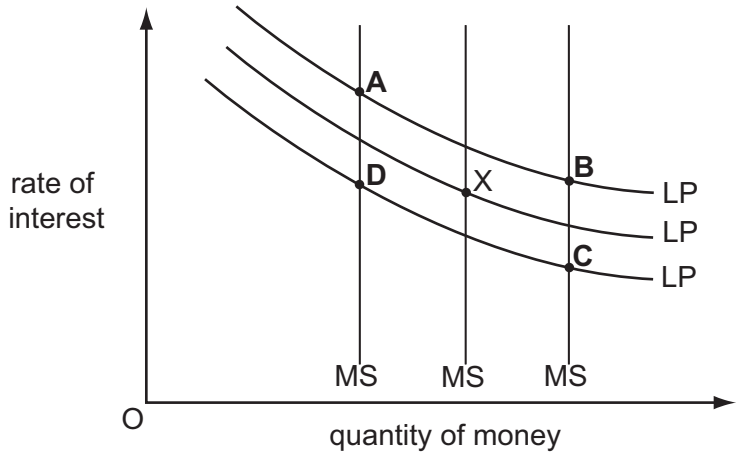
C the sale of government securities to domestic residents

D the sale of government securities to overseas residents

25 The diagram shows three different levels of money supply (MS) and three different demand curves for holding money balances (LP). The initial equilibrium is at point X.

Banks create more credit and people decide to hold more money as a precaution against emergencies.

What is the new equilibrium point?



26 The table shows the figures for consumption, capital formation and depreciation in four economies, all measured in US $.

Assuming that the state of technology remains unchanged, which economy is most likely to experience economic growth?

economy	consumption ($ m)	capital formation ($ m)	depreciation ($ m)
A	100	20	10
B	500	200	200
C	1 000	1 200	1 400
D	20 000	5 000	6 000

27 What is the major cause of high rates of inflation in many developing economies?

A balance of payments deficits

B budget deficits

C low levels of unemployment

D overvalued exchange rates

28 Which type of unemployment arose from the worldwide decline in the demand for electronic goods beginning in the summer of 2001?

A seasonal

B voluntary

C frictional

D structural

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

A a deterioration in the visible trade balances of developing economies

B a reduction in migration to urban areas

C a reduction in the transfer of technology to developing economies

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

30 When might the effectiveness of fiscal expansion in increasing the level of output be **reduced**?

A when it leads to the appreciation of the currency

B when it results in an increase in the price of government bonds

C when it is accompanied by an increase in the money supply

D when the price level remains unchanged