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UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Advanced Level

ECONOMICS **9708/03**

Paper 3 Multiple Choice (Supplement) **October/November 2007**

1 hour

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

* 1 2 2 2 4 4 4 9 5 2 *

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.

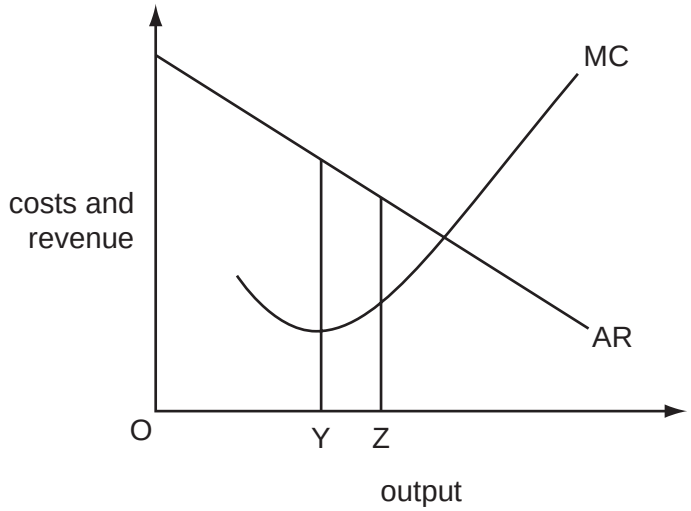
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UNIVERSITY of CAMBRIDGE International Examinations

[Turn over

1 In the diagram, a firm increases its output from OY to OZ.



Which statement about the effect on economic efficiency is correct?

A It will increase because a greater quantity will be produced and higher total revenue will be earned.

B It will increase because the value that consumers place on the product comes closer to the cost of producing the last unit.

C It will decline because both average and marginal revenue will fall.

D It will decline because both total and marginal cost will rise.

2 A consumer allocates his expenditure between three goods, X, Y and Z.

The table shows the consumer's marginal utilities for these goods and their prices.

good	X	Y	Z
marginal utility (units)	50	30	25
price ($)	20	15	10

How should the consumer's expenditure be reallocated in order to maximise his utility?

	X	Y	Z
A	more	more	less
B	more	less	more
C	less	more	less
D	less	less	more

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3 What is **not** held constant when calculating the substitution effect of a change in the price of a good?

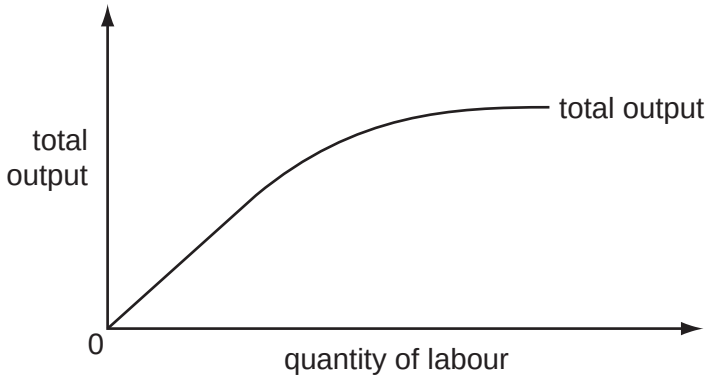
A the consumer's expenditure on other goods

B the consumer's money income

C the consumer's tastes

D the prices of other goods

4 The diagram shows the short-run relationship between the total output of a firm and the quantity of labour.



What can be concluded about the firm?

A It is experiencing increasing returns to scale.

B It is experiencing constant returns to scale.

C The marginal physical product of capital is constant.

D The marginal physical product of labour eventually diminishes.

5 The introduction of equal pay legislation in a country increases the wages of female workers.

What will be the most likely effect of this increase?

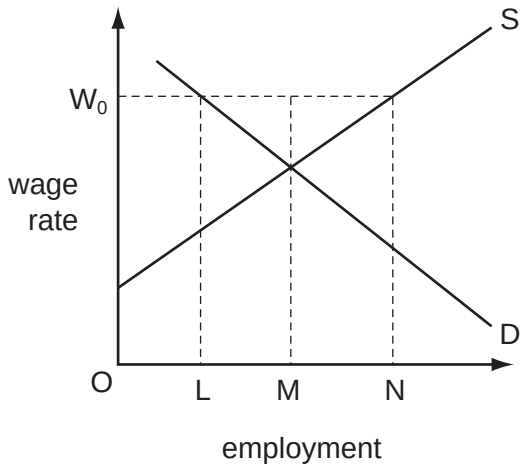
A a reduction of the rate of female unemployment

B a reduction in the wages of male workers

C an expansion in the supply of female workers

D substitution of female workers for male workers

6 The diagram shows an industry's demand for and supply of labour.



Initially the labour market is in equilibrium. The workers then form a trade union which negotiates a wage equal to OW_0 with the employers.

What will be the effect on the level of employment in the industry?

A an increase equal to MN

B an increase equal to LM

C a decrease equal to LN

D a decrease equal to LM

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

output	total cost ($)	marginal cost ($)
1	200	20
2	215	15
3	225	10
4	240	15
5	260	20

What is the average fixed cost of producing 6 units?

A $20 **B** $30 **C** $180 **D** $200

8 Which of the following costs of a firm is most likely to rise as it expands?

A the rate of interest paid on borrowing

B the price of components

C the cost of monitoring workers' inputs

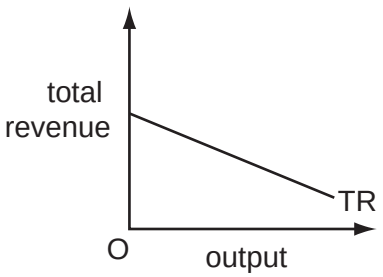
D energy costs per unit of output

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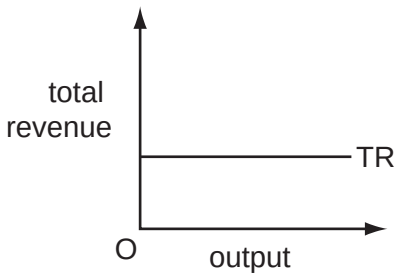
9 A monopolist faces a downward-sloping straight-line demand curve.

Which diagram shows his total revenue curve (TR)?

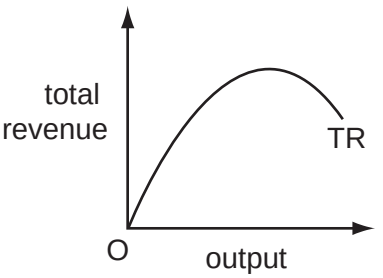
A



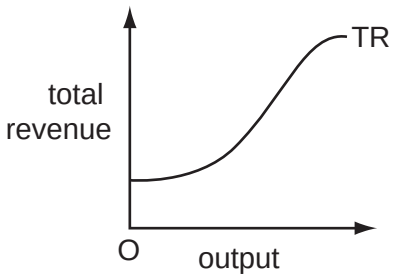
B



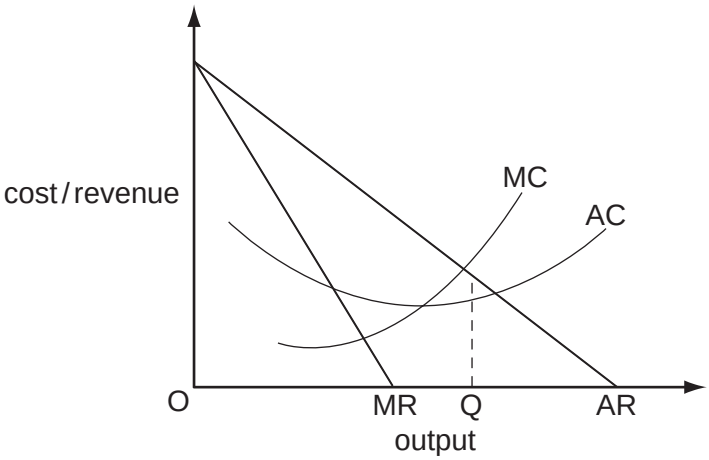
C



D



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



Which policy objective is consistent with a decision by the firm to produce output OQ?

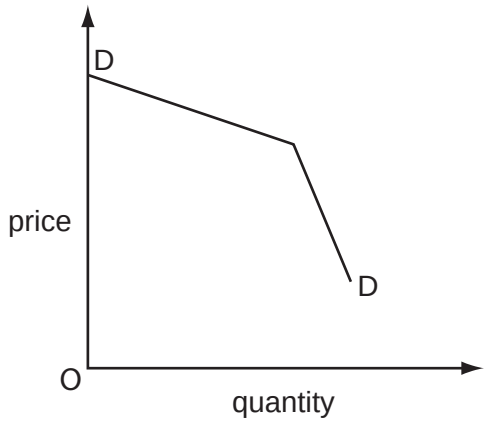
A maximising profit

B maximising revenue subject to earning a normal profit

C maximising sales revenue

D satisficing profits

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



A price discrimination

B price leadership by the dominant firm

C interdependence between firms

D collusion between firms

12 Instead of charging all its customers the same price, a firm decides to charge different prices in different markets.

How is this likely to affect consumers' surplus and the firm's marketing costs?

	consumers' surplus	marketing costs
A	decrease	decrease
B	decrease	increase
C	increase	increase
D	increase	decrease

13 At its current level of output a monopolist is on the price-inelastic part of its demand curve.

Which changes should it make to price and output in order to maximise its profits?

	price	output
A	increase	increase
B	increase	decrease
C	decrease	decrease
D	decrease	increase

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14 What is **not** an example of 'market failure'?

A inequality in the distribution of income

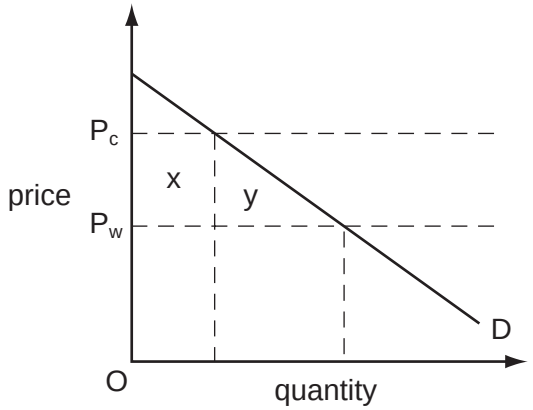
B a monopolist charging prices above marginal cost

C the damage to common land due to overgrazing

D aircraft noise affecting individuals living near airports

15 In the diagram, D is a country's demand curve for an imported good which cannot be produced domestically.

The world market price is OP_w.



Which area measures the deadweight loss to the country of imposing an import tariff equal to P_wP_c on the good?

A x + y **B** x **C** y **D** x – y

16 What should an industry regulator control if it wishes to provide an incentive for a privatised firm to improve its productive efficiency?

A dividends

B output

C prices

D profits

17 The introduction of a congestion charge on private motorists entering a city centre results in a significant reduction in traffic congestion.

What will be the net welfare effects on the following groups of car users?

	those who continue to use their cars	those who no longer travel	those who switch to public transport
A	uncertain	lose	uncertain
B	uncertain	uncertain	gain
C	lose	lose	gain
D	lose	uncertain	uncertain

18 What will directly result in an increase in China's Gross National Product?

A increased wages earned in a Malaysian-owned factory in China

B increased imports of goods and services

C increased outflows of net property income

D increased taxes on domestic expenditure

19 Over a given period, the nominal value of a country's national income increased by 10 % and the average price level increased by 20 %.

What can be deduced from this information?

A The country's money supply increased by 10 %.

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

C There was a reduction in the demand for money.

D There was a reduction in the volume of output.

20 A country's government runs a budget surplus of $10 billion.

What must the country's central bank do to prevent cash reserves of the commercial banks from falling?

A buy bonds of a value at least equal to $10 billion

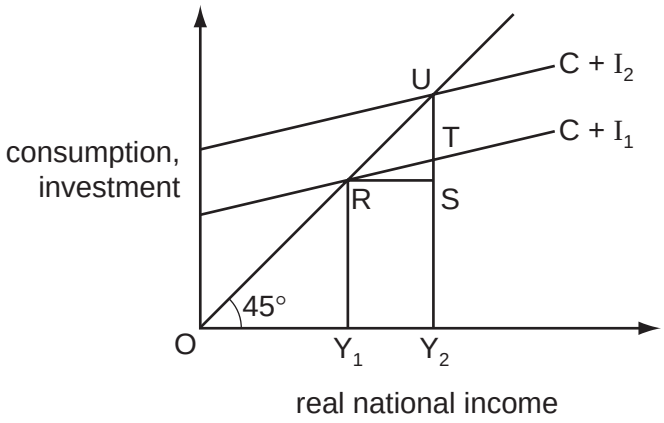
B buy bonds of a value less than $10 billion

C sell bonds of a value at least equal to $10 billion

D sell bonds of a value less than $10 billion

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21 The diagram shows a two-sector economy. Initially consumption is C, investment is I_1 and the equilibrium level of income is Y_1. Investment increases to I_2 giving a new equilibrium level of income, Y_2.



What is the value of the multiplier?

A $\frac{RS}{TU}$ **B** $\frac{RS}{RU}$ **C** $\frac{RU}{TU}$ **D** $\frac{TU}{RU}$

22 What is likely to cause a decrease in aggregate supply?

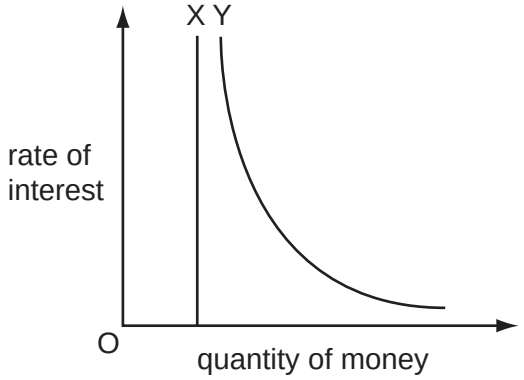
A a decrease in consumption expenditure

B an increase in labour productivity

C a decrease in rates of unemployment benefit

D an increase in wage costs per unit of output

23 The diagram shows the two main components (X and Y) of the liquidity preference curve.



What can be concluded about component X?

A It is an active balance and is interest-elastic.

B It is an active balance and is interest-inelastic.

C It is an idle balance and is interest-elastic.

D It is an idle balance and is interest-inelastic.

24 Between 2000 and 2004 Botswana experienced economic growth but there was a fall in its Human Development Index.

Which combination of events could explain this apparent paradox?

	aggregate demand	productive capacity	life expectancy
A	increase	increase	increase
B	increase	increase	decrease
C	decrease	decrease	increase
D	decrease	decrease	decrease

25 What would explain why the prices of the primary commodities produced by less developed countries fluctuate widely from year to year?

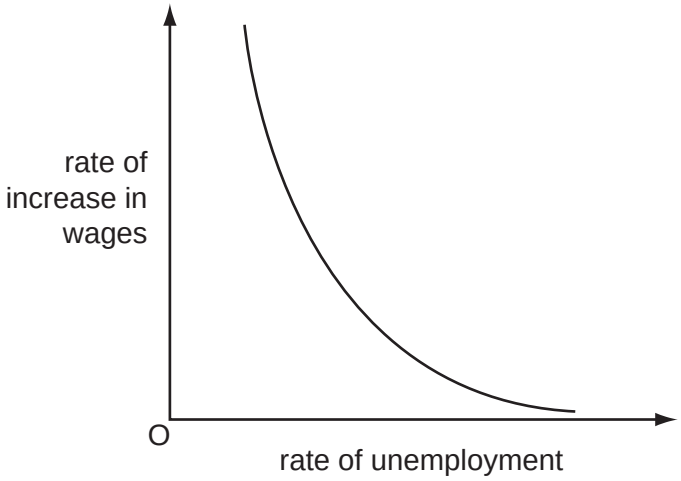
A the development of artificial substitutes for natural products

B the introduction of more capital-intensive methods of production by producers

C inelasticity of both the supply and demand for these products

D improvements in agricultural productivity

26 The diagram shows the relationship between the rate of increase in wages and the rate of unemployment.



What would be likely to cause the curve in the diagram to shift upwards and to the right?

A a reduction in regional differences in unemployment rates

B a reduction in the proportion of the workforce belonging to trade unions

C an increase in the unemployment rate

D the expectation of a higher rate of inflation

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27 What would be **most** likely in the short run to cause an increase in a country's unemployment rate?

A an increase in its potential output

B an increase in its balance of trade surplus

C an increase in the government's budget deficit

D an increase in the money supply

28 What is an example of an expansionary supply side policy?

A an increase in tariffs

B an increase in interest rates

C an increase in spending on welfare

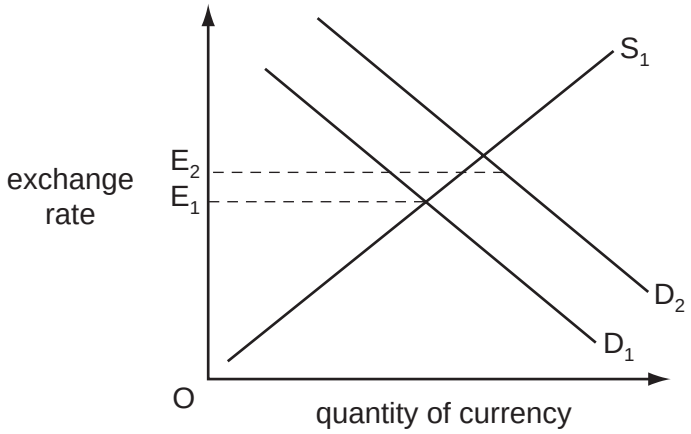
D an increase in spending on training benefits

29 In which combination of circumstances is an increase in government expenditure likely to result in the largest increase in output?

	initial level of unemployment	means of financing additional expenditure
A	high	borrowing from the banking system
B	high	increase in tax rates
C	low	increase in tax rates
D	low	issues of bonds to non-bank private sector

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30 In the diagram, D_1 is the initial demand curve for a country's currency, S_1 is the initial supply curve, and OE_1 is the initial exchange rate.



The demand curve then shifts to D_2 and the exchange rate moves to E_2.

What can be deduced from this?

A Exchange rates are freely fluctuating.

B The country's authorities are operating a managed float.

C At E_2, the country's foreign exchange reserves will fall.

D Interest rates have fallen.

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