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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 2008**

1 hour

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

* 4 6 5 2 2 2 5 2 8 9 *

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 **11** printed pages and **1** blank page.

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1 Which condition must be met for economic efficiency to be achieved?

A Marginal social costs are zero in the production of all goods.

B Marginal social costs equal marginal social benefits in the production of all goods.

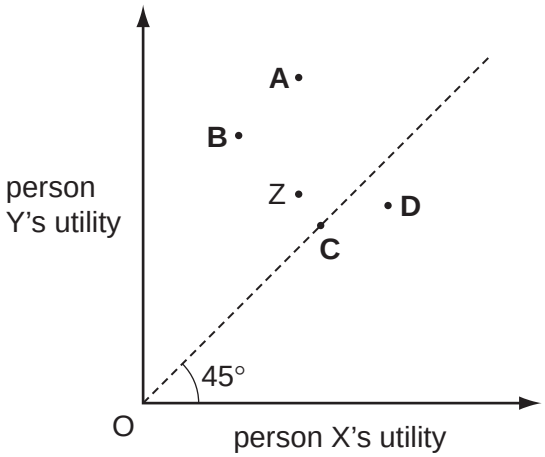
C Marginal social benefits are at a maximum in the production of all goods.

D Marginal social costs are at a minimum in the production of all goods.

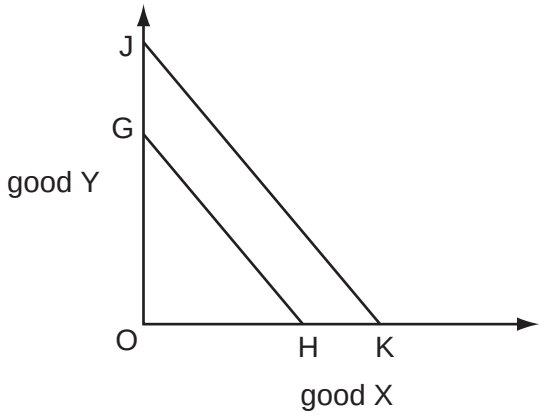
2 The diagram shows the levels of utility corresponding to different allocations of resources between two people.

The initial allocation is Z.

Which reallocation of resources would definitely be more Pareto efficient?



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



Regardless of any other changes that might occur, what **must** be correct?

A There has been an equal proportionate increase in the price of X and Y.

B There has been an equal proportionate decrease in the price of X and Y.

C There has been an increase in the consumer's money income.

D There has been an increase in the consumer's real income.

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4 Which statement explains why labour is subject to the law of diminishing returns in the short run?

A As additional workers are hired, total output decreases.

B As employment increases, the capital-labour ratio falls.

C As employment increases, wage rates will have to be increased.

D As output increases, eventually diseconomies of scale will occur.

5 A firm currently employs 30 workers at a daily wage rate of $40.

It calculates that the marginal cost per day of hiring an additional worker would be $102.

By how much would the daily wage rate have to be increased to attract an extra worker?

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

6 In which circumstances is a trade union most likely to be successful in raising wage rates?

A The demand for the good produced is price-elastic.

B The industry faces substantial foreign competition.

C The industry's cost structure is capital-intensive.

D The workers are unskilled.

7 When a firm increases all its inputs by 300 %, its output increases by 200 %.

What does this illustrate?

A the law of diminishing returns

B increasing returns to scale

C diseconomies of scale

D the law of variable proportions

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8 The table shows the production of a firm.

production (tonnes)	total cost ($)
0	20
1	30
2	35
3	40
4	45
5	50

What is the average variable cost of producing 5 tonnes of output?

A $4.00 **B** $5.00 **C** $6.00 **D** $10.00

9 Which feature does a contestable market share with a perfectly competitive market?

A Firms must be price takers.

B Firms must operate on a small scale.

C There must be freedom of entry to and exit from the industry.

D There must be many firms in the industry.

10 Which characteristic would make it easier for firms in an industry to collude?

A low barriers to entry

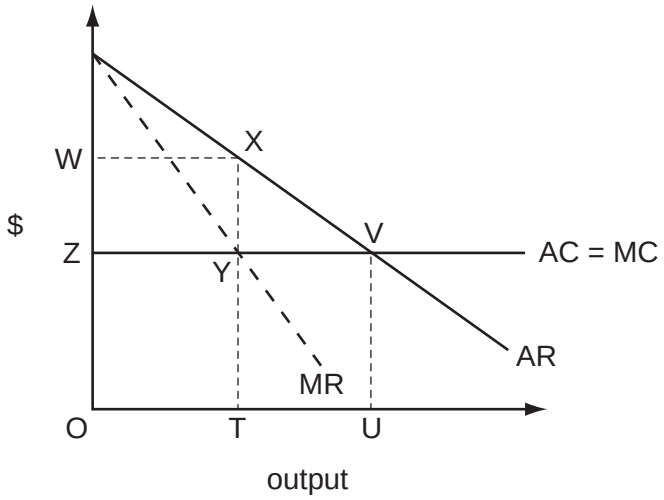
B a large number of firms

C rapid technological change

D product homogeneity

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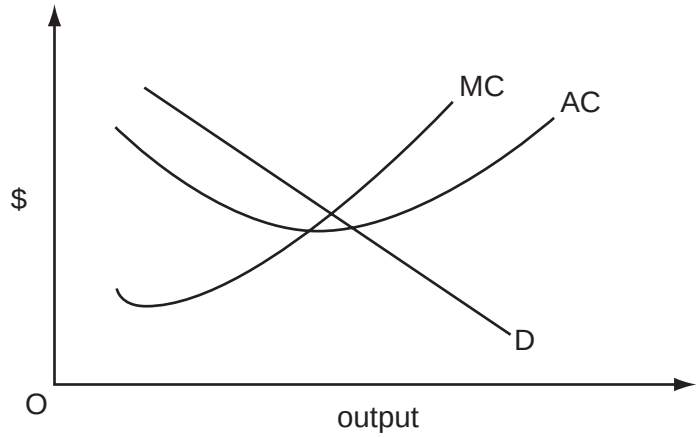
11 The diagram shows the cost and revenue curves of a profit-maximising monopolist. The monopolist's average cost curve is identical to the long-run supply curve which would exist if the industry was perfectly competitive.



Which area shows the deadweight loss resulting from this monopoly situation?

A WXYZ **B** WXVZ **C** XVY **D** XVUT

12 The diagram shows the demand and cost curves of a monopolist who initially produces at the profit-maximising level of output.



The monopolist is required by the government to adopt marginal cost pricing.

What will be the effect on the price charged and the output produced?

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

13 The table shows the costs of two milk producers.

	costs per litre
firm X	$9
firm Y	$7

The price received by producers is $10 per litre. Both firms have been given quotas allowing them to produce 200 litres per day. Firm X sells its quota to firm Y.

Assuming constant costs of production and zero costs of entry and exit, what price did firm Y pay (per day) to buy X's quota?

A $200

B $600

C $700

D between $200 and $600

14 During a year, a country's national income in money terms increased by 6 %, prices increased by 4 % and total population increased by 2 %.

What was the approximate change in real income per head?

A a decrease of 2 %

B nil

C an increase of 2 %

D an increase of 4 %

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

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

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16 The table shows some data for an economy.

investment $m	exports $m	government expenditure $m	savings $m	imports $m	taxation $m	national income $m
200	100	50	50	120	100	700
200	100	50	60	140	150	800
200	100	50	75	160	200	900
200	100	50	100	180	275	1000

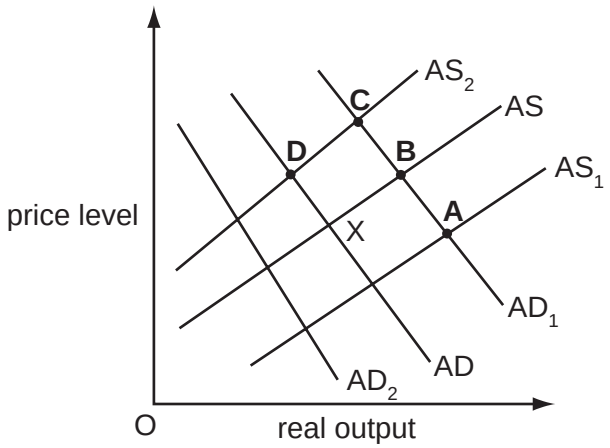
What is the equilibrium level of national income?

A $700 m **B** $800 m **C** $900 m **D** $1000 m

17 In the diagram an economy is initially in equilibrium at point X.

The government increases spending on education. At the same time there is a decrease in money wage rates.

Which point shows the most likely new equilibrium of the economy?



18 In an economy, the volume of output rises by 3 % in a year, while the quantity of money rises by 5 %.

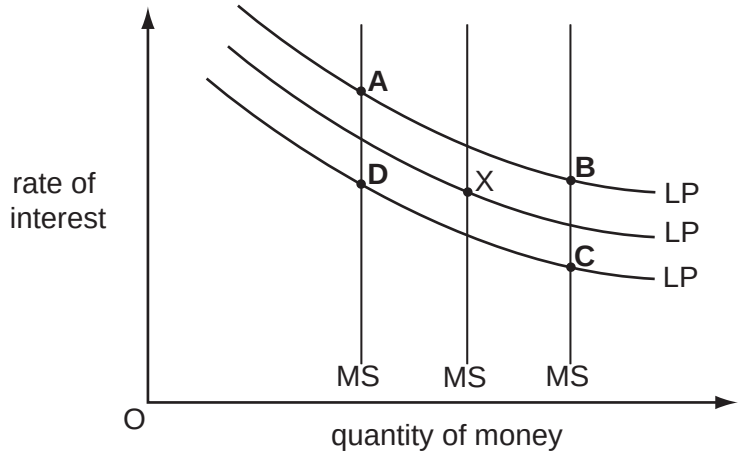
If the velocity of circulation of money remains the same, what will be the approximate increases in the money value of national income and the price level?

	increase in money value of national income	increase in price level
A	5 %	2 %
B	5 %	3 %
C	8 %	2 %
D	8 %	3 %

19 What is likely to be the effect on interest rates and the supply of money of a sale of government securities to the public by a central bank?

	interest rates	money supply
A	increase	increase
B	increase	decrease
C	decrease	decrease
D	decrease	increase

20 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 less money as a precaution against emergencies.

What is the new equilibrium point?

21 Real output in an economy grows by 1.5 % but at the same time the level of unemployment increases.

What can be deduced from this information?

A Labour productivity has decreased.

B Actual output has grown more slowly than potential output.

C Population of working age has fallen.

D There has been an increase in the rate of inflation.

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22 Which pattern of labour market data is likely to indicate an increase in cyclical unemployment?

	changes in	
	compulsory redundancies	voluntary resignations
A	decrease	increase
B	increase	increase
C	decrease	increase
D	increase	decrease

23 The natural rate of unemployment in an economy is 5%.

What will happen if a government persists in trying to achieve a target rate of unemployment of 3% by expansionary monetary policy?

A an accelerating rate of inflation

B a diminishing rate of inflation

C a high but constant rate of inflation

D a negative rate of inflation

24 A developing economy experiences a rapid growth in labour productivity.

What is most likely to result from this?

A an increase in the country's balance of trade deficit

B an increase in the country's relative labour costs

C a depreciation of the country's currency

D an increase in real income per head

25 What would increase an economy's actual output but **not** its potential output?

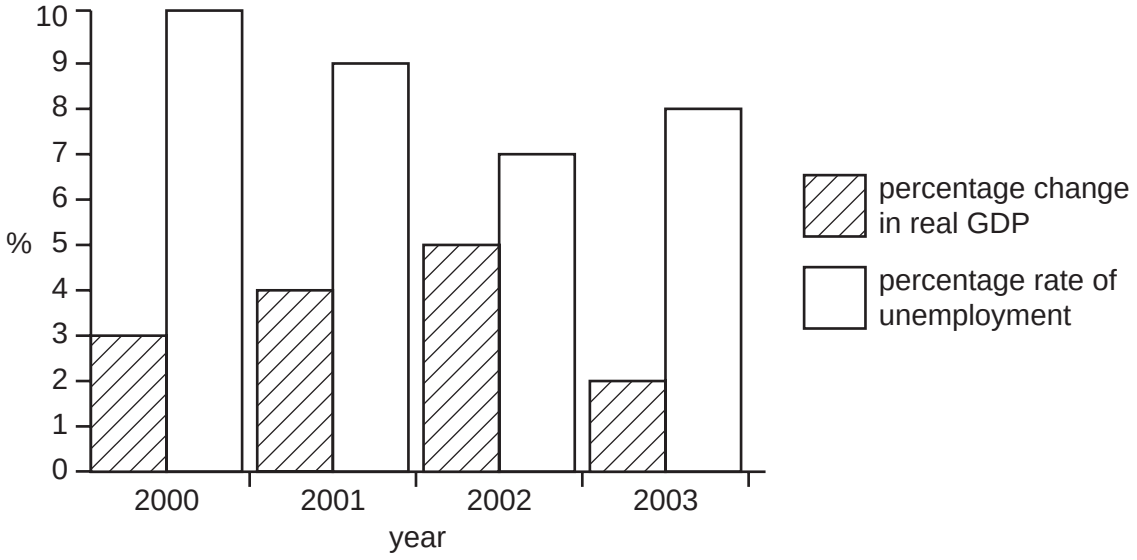
A an increase in the capital available to the labour force

B an increase in the labour force's skill level

C an increase in the number in the labour force

D an increase in the proportion of the labour force employed

26 The chart shows the rates of economic growth and unemployment in a country for the period 2000 to 2003.



What does the chart show?

A Real GDP was lowest in 2003.

B The total labour force declined between 2000 and 2002.

C The standard of living fell between 2002 and 2003.

D The unemployment rate fell when the growth rate increased.

27 What is a necessary feature of economic growth?

A the elimination of an economy's output gap

B a continuing increase in the level of employment

C a continuing outward shift in an economy's production possibility frontier

D an increase in an economy's nominal GDP

28 The European Union imposes a quota on the volume of garments imported from China.

What is likely to be a consequence?

A a reduction in the profit margins on garments produced by Chinese textile firms

B a reduction in the inflation rate in the EU

C a switch to producing higher-value garments by Chinese textile firms

D the closure of Chinese-owned textile factories in Thailand

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29 Without any change in government policy, what will be the effect of an economic recession on tax revenue and on government expenditure?

	tax revenue	government expenditure
A	decrease	decrease
B	decrease	increase
C	increase	increase
D	increase	decrease

30 A country's government wishes to switch demand away from private consumption towards investment and net exports.

Which combination of policy measures would be most likely to help it achieve this objective?

	interest rates	rate of income tax
A	increase	increase
B	increase	decrease
C	decrease	increase
D	decrease	decrease

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