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UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Level

ECONOMICS **9708/31**

Paper 3 Multiple Choice (Supplement) **October/November 2011**

1 hour

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

* 1 2 2 2 5 4 0 7 6 3 *

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1 Which statement describes the operation of the law of variable proportions?

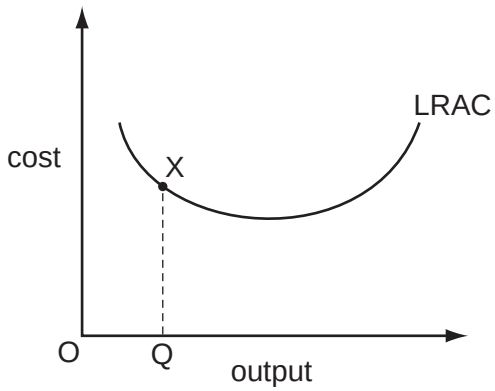
A As all factors are increased in proportion, the marginal cost of production increases.

B As all factors are increased in proportion, total product rises at a diminishing rate.

C As more of a variable factor is added to a fixed factor, the marginal cost of production diminishes.

D As more of a variable factor is added to a fixed factor, total product rises at a diminishing rate.

2 In the diagram, a firm is operating at point X on its long-run average cost curve.



Which statement is **not** correct?

A The firm is employing the least-cost combination of factor inputs to produce OQ.

B The firm is operating below its minimum efficient scale.

C The firm is producing at its cost-minimising level of output.

D The firm is producing output OQ at minimum cost.

3 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

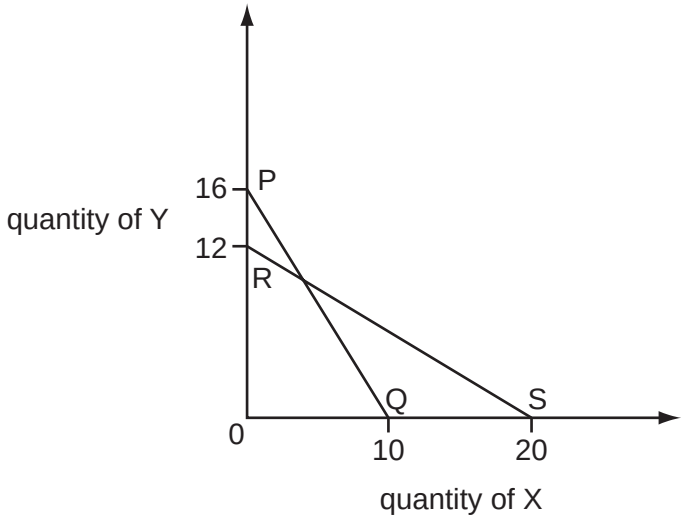
A marginal utility of X = price of X and marginal utility of Y = price of Y.

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

C marginal utility of X = marginal utility of Y.

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

4 In the diagram PQ is a consumer's original budget line.



The consumer's income increases from $80 to $120 and, at the same time, the prices of X and Y change.

If the consumer's budget line is now RS, what are the new prices of X and Y?

	price of X ($)	price of Y ($)
A	4	12
B	6	10
C	10	8
D	12	6

5 What will cause the supply curve of labour in a particular industry to shift to the left?

A a fall in demand for the industry's product

B a greater use of machinery in the production of the industry's output

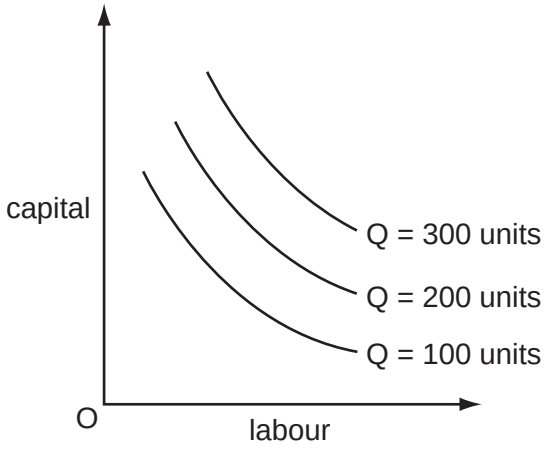
C a rise in wages paid in similar occupations in other industries

D a weakening of trade union influence in the industry

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6 A firm employs two factors of production, capital and labour.

The curves in the diagram show the different combinations of capital and labour a firm needs to produce given levels of output.



What does the diagram show?

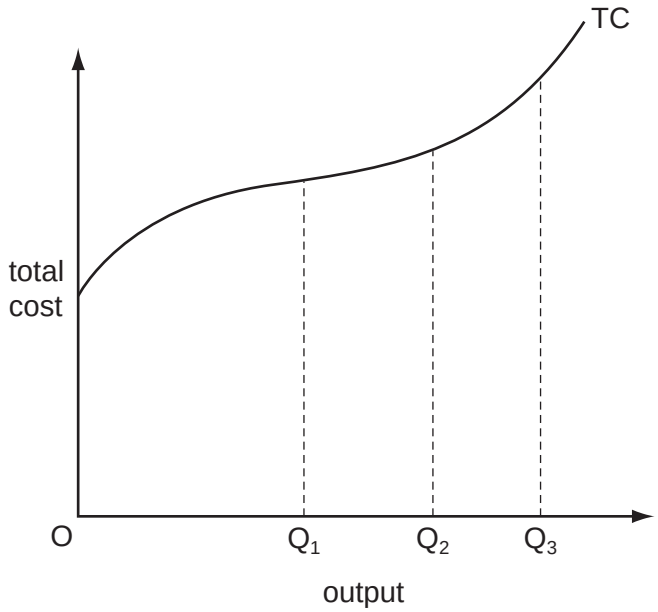
A the firm's long-run production function

B the firm's long-run total cost function

C the firm's short-run production function

D the firm's short-run total cost function

7 The diagram shows a firm's short-run total cost curve (TC).



Which statement is correct?

A Average total cost is minimised at output OQ_1.

B Average variable cost is minimised at output OQ_2.

C Average variable cost is minimised at output OQ_3.

D Marginal cost is minimised at output OQ_2.

8 What is **not** one of the roles prices play in a perfectly competitive market economy?

A to provide a rationing mechanism for allocating goods between consumers

B to provide incentives to producers to respond to changes in consumer demands

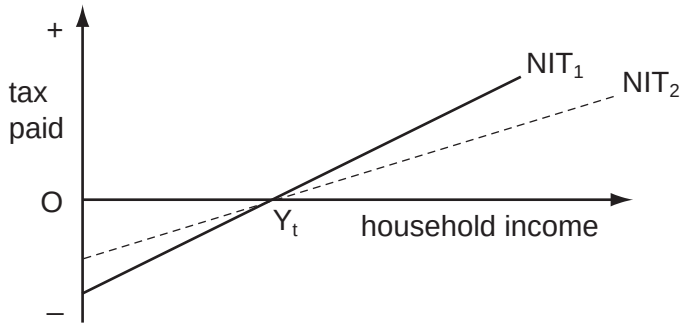
C to provide information to consumers about the quality of different products

D to provide information to producers about changes in consumer preferences

9 Which practices would be classified as price discrimination?

	charging higher rail fares for peak period travel to meet the additional costs of train companies	charging lower return fares from Kuala Lumpur to Hong Kong for passengers who stay overnight on a Saturday in Hong Kong
A	no	no
B	no	yes
C	yes	no
D	yes	yes

10 The diagram illustrates the working of a negative income tax system (NIT), where households with incomes above Y_t pay tax and those with incomes below Y_t receive a tax credit.



What would be the effects of decreasing the effective tax rate, thereby causing the NIT schedule to shift from NIT_1 to NIT_2?

	effect on work incentives	effect on net tax revenue
A	decrease	increase
B	decrease	uncertain
C	increase	increase
D	increase	uncertain

11 Which commodities should a government tax if it wishes to make the tax system more progressive?

A those for which demand is price elastic

B those for which demand is price inelastic

C those with an income elasticity of demand greater than one

D those with an income elasticity of demand less than one

12 The Chinese government is increasing the role of market forces in its economy. However, in 2008 it imposed temporary maximum price controls on energy and transport.

Why might a government, committed to reducing central planning, introduce price controls?

A to increase allocative efficiency

B to increase the incentive for producers to raise supply

C to reduce consumer demand

D to reduce expectations of inflation

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13 The table gives information about two countries in 1994 and 2004.

country	GNP (local currencies)		population (thousands)		prices (1994 = 100)
	1994	2004	1994	2004	2004
1	5 000	18 000	5 000	5 500	300
2	10 000	20 000	3 000	3 300	200

From the data in the table, what can be concluded about the real GNP per head?

A It fell in country 2 only.

B It fell in countries 1 and 2.

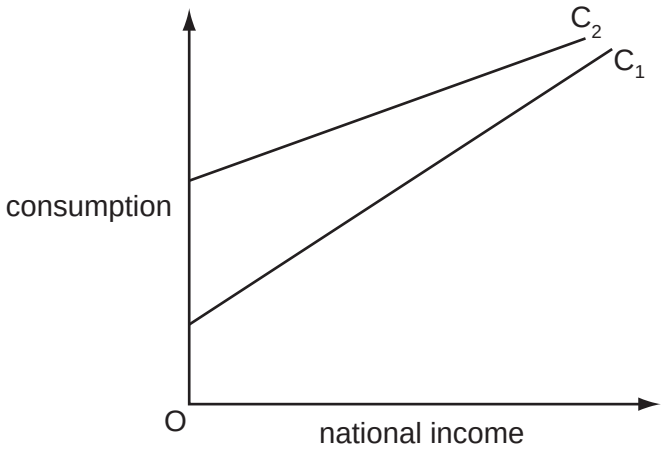
C It rose in countries 1 and 2.

D It rose in country 2 only.

14 According to monetarist theory, if there is an unanticipated increase in the money supply what will be the short-run effect on money wages, real wages and the level of employment?

	money wages	real wages	employment
A	increase	decrease	increase
B	increase	increase	decrease
C	decrease	increase	decrease
D	decrease	decrease	increase

15 In the diagram, C_1 shows the relationship between consumption and national income.



What could cause the consumption function to shift to C_2?

A an increase in exports

B an increase in the rate of interest

C an increase in the rate of unemployment benefits

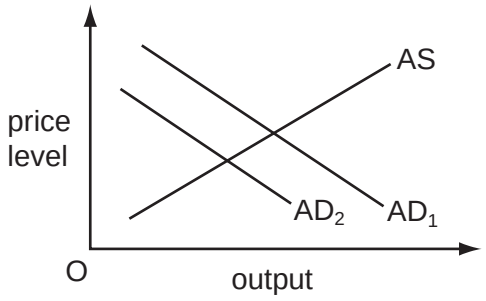
D an increase in the standard rate of income tax

16 In a closed economy with no government, the value of the investment multiplier is 5.

By how much will **consumption** increase, if investment increases by $300?

A $540 **B** $1000 **C** $1200 **D** $1500

17 In the diagram, AD_1 and AS are an economy's original aggregate demand and aggregate supply curves.



What will cause the aggregate demand curve to shift to AD_2?

A an appreciation of the currency

B an increase in the money supply

C an increase in the price level

D an increase in the real wage

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18 In an economy, the volume of output rises by 2 % in a year, while the quantity of money rises by 5 %.

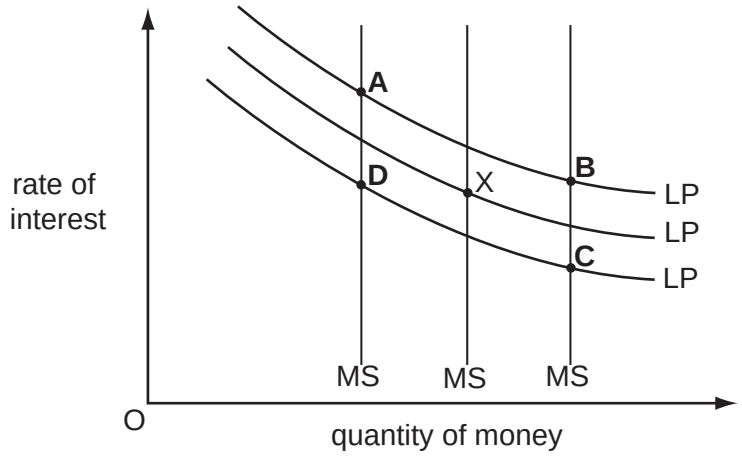
If the velocity of circulation of money remains the same, what will be the approximate increases in the price level and the money value of national income?

	increase in price level	increase in money value of national income
A	2 %	5 %
B	2 %	7 %
C	3 %	5 %
D	3 %	7 %

19 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?



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

A a high rate of saving

B a low rate of economic growth in past periods

C a low rate of inflation

D a low rate of population growth

21 What is likely to increase a country's actual output in the short run but may reduce its long-run rate of growth of potential output?

A an increase in the size of the government's budget deficit

B an increase in the size of the labour force

C increased female participation in the labour force

D increased government spending on education

22 What is a likely consequence of an increase in cyclical unemployment?

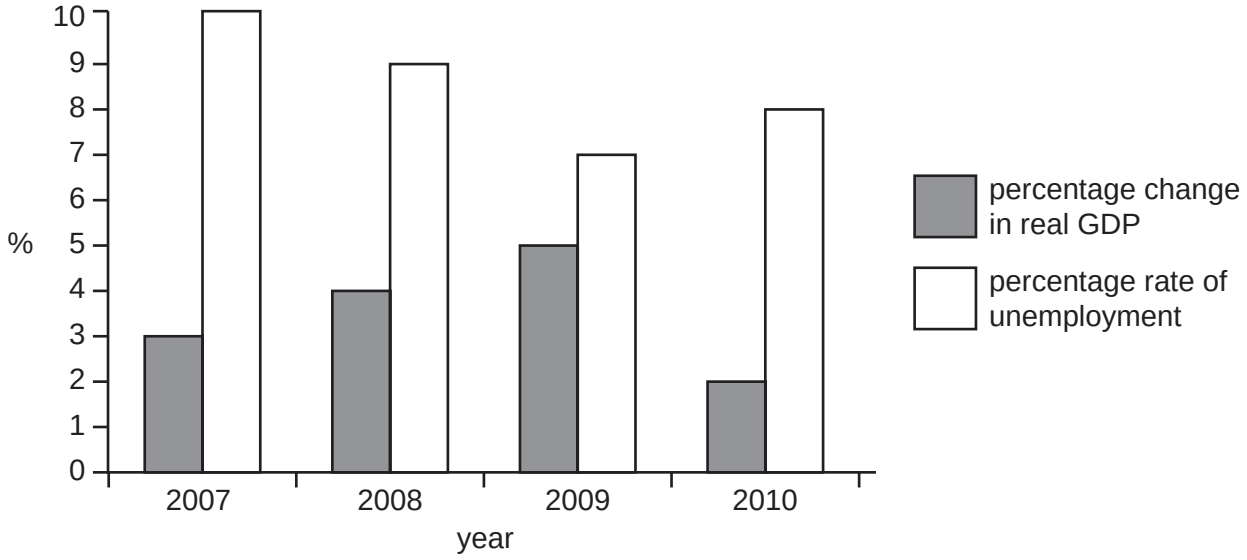
A a deficit on the current account of the balance of payments

B a deterioration in the fiscal balance of the government

C an increased rate of inflation

D an increase in immigration

23 The chart shows the rates of economic growth and unemployment in a country for the period 2007 to 2010.



What does the chart show?

A Real GDP was lowest in 2010.

B The standard of living fell between 2009 and 2010.

C The total labour force declined between 2007 and 2009.

D The unemployment rate fell when the growth rate increased.

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24 Why are high and variable rates of inflation likely to be harmful to long-run economic growth?

A They hide relative price changes leading to a misallocation of resources.

B They increase the real burden of household debt leading to lower consumption.

C They lead to an increase in the household saving ratio.

D They result in an increase in real interest rates.

25 Economists have proposed that the best policy to promote development is 'trade not aid'.

What is implied by this proposal?

A Developing countries should become self-sufficient and not rely on aid.

B Developing countries should be given greater access to markets in developed countries.

C Developing countries should use foreign aid to invest in their export industries.

D Developing countries should use trade barriers to promote import substitution.

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

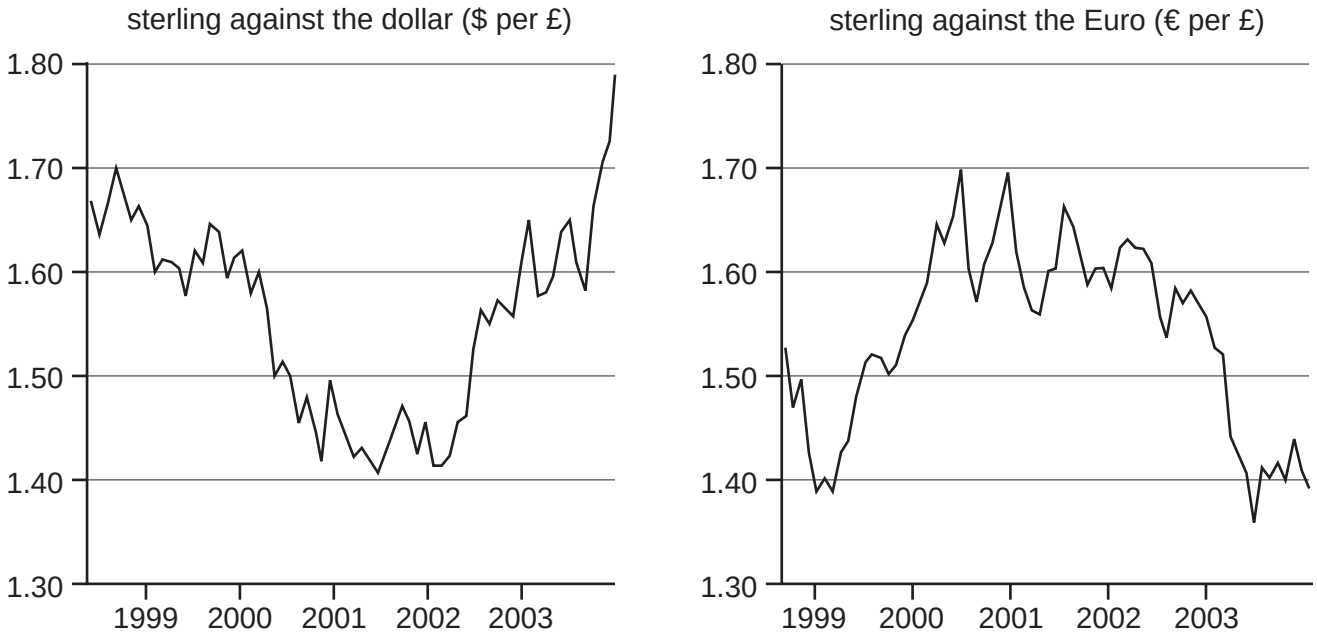
A a reduction in local wage levels

B a reduction in tax revenues in developing economies

C a reduction in the range of consumer goods available to the local population

D a worsening of net income flows from investments

27 The graphs show the changes in the exchange rate of the £ sterling against the US $ and against the Euro between 1998 and 2003.



Which statement is **incorrect**?

A Between 1998 and 2001 the £ sterling depreciated against the US $.

B Between 1998 and 2001 the £ sterling appreciated against the Euro.

C Between 1998 and 2001 the Euro depreciated against the US $.

D Between 2001 and 2003 the US $ appreciated against the Euro.

28 A regressive tax is defined as one where

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

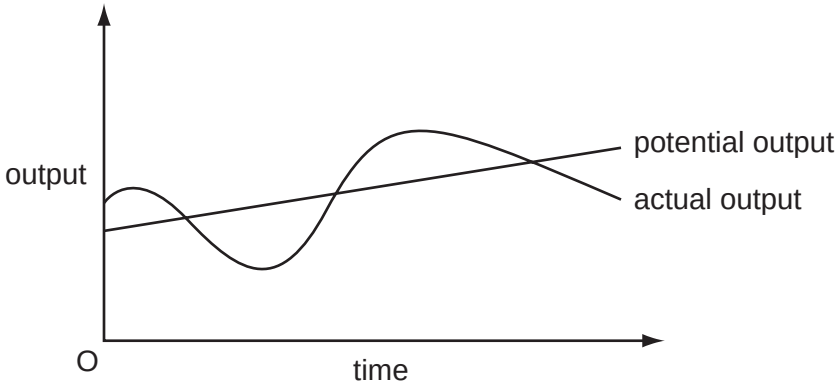
B high income earners pay a lower proportion of their income in taxes than low income earners.

C high income earners pay less in taxes than low income earners.

D high income earners pay more in taxes than low income earners.

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29 The diagram shows the time path of actual output and of long-term potential output of an economy.



What would help to reduce the divergence of actual output from potential output?

A a balanced budget

B a stable exchange rate

C automatic stabilisers

D stable interest rates

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

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

B when it leads to an appreciation of the country's exchange rate

C when it results in a decrease in the price of government bonds

D when the price level increases

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

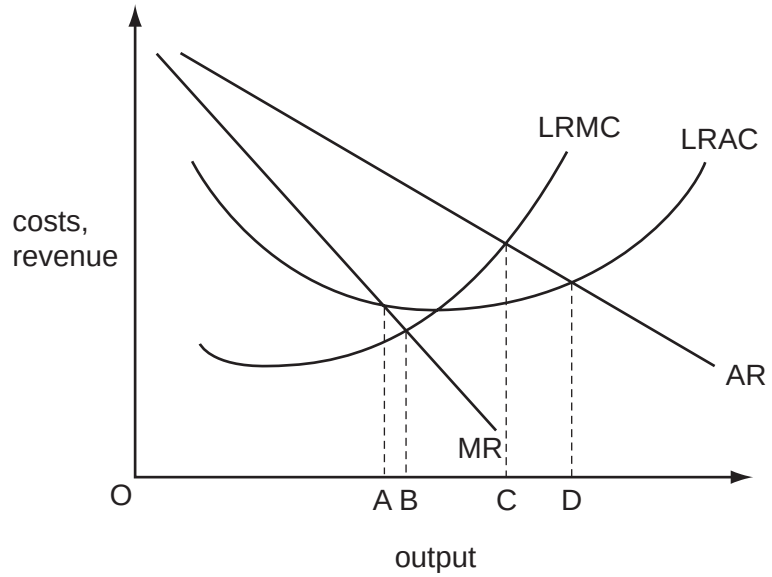
A Buyers' additional satisfaction declines as consumption rises.

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.

2 The diagram shows a firm's long-run cost and revenue curves.



At which level of output is the firm both allocatively and productively efficient?

A OA **B** OB **C** OC **D** OD

3 To prevent a surplus of milk, each milk producer is given a production quota which specifies the volume of milk he is allowed to supply.

Initially the quotas are not tradable, but then trade in quotas is allowed.

Who would gain or lose when trade in quotas takes place?

	purchasers of quotas	sellers of quotas
A	gain	gain
B	gain	lose
C	lose	gain
D	lose	lose

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4 For the purposes of measuring the income effect of a change in the price of a good, what is **not** held constant?

A consumer preferences

B relative prices

C the consumer's money income

D the consumer's real income

5 An actor is paid $100 000 a year. The next best paid job he could get is as a lecturer at $60 000 a year.

What are his transfer earnings and his economic rent?

	transfer earnings	economic rent
A	$60 000	$40 000
B	$60 000	zero
C	$40 000	$60 000
D	$40 000	zero

6 The table shows the labour market for an economy in four separate years.

In which year was there excess demand in the labour market?

	working population (millions)	unemployment rate (%)	job vacancies (thousands)
A	19	1.0	180
B	19	2.0	80
C	20	1.1	240
D	20	1.5	100

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7 The table shows the levels of output of a good which can be produced with different combinations of labour and capital.

capital (number of machines)	labour (number of workers)	output (units)
2	6	100
2	7	106
2	8	108
4	12	200

Which characteristic of the production function for this good does the table show?

A a fixed ratio between capital and labour inputs

B constant returns to scale

C increasing marginal productivity of labour

D technical economies of scale

8 The short-run total costs (SRTC) of a firm are given by the formula

$SRTC = \$(10\,000 + 5X^2)$

where X is the level of output.

What are the firm's average fixed costs?

A \$10 000

B $\frac{\$(10\,000 + 5X^2)}{X}$

C $\frac{\$10\,000}{X}$

D $\frac{\$10\,000}{5X^2}$

9 What would be most likely to constrain a firm's ability to grow?

A the increased difficulty faced by the firm in marketing its product

B the increased risks arising from product diversification

C the increasing costs of distributing goods from a given location

D the increased difficulties faced by the management in coordinating production

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10 Which would be **least** likely to practise price discrimination?

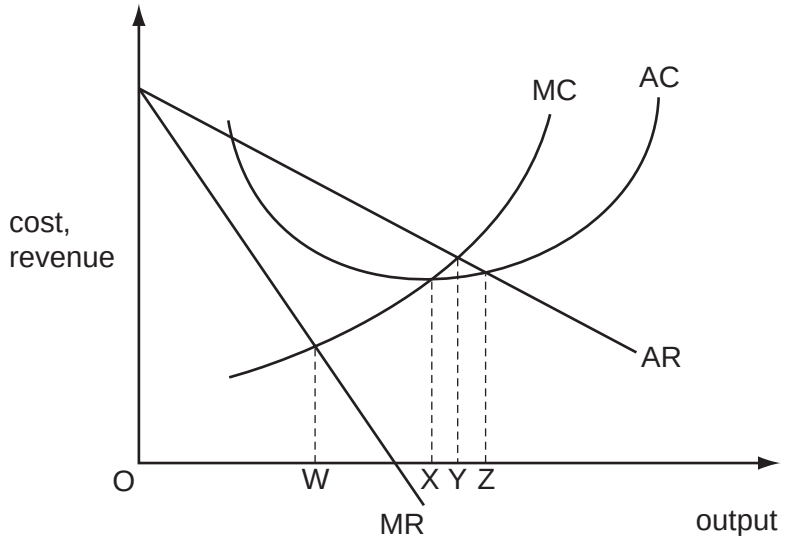
A a baker

B a cinema

C a hairdressing salon

D a restaurant

11 The diagram shows the cost and revenue curves of a monopoly.



Which movement between levels of output would indicate a wish to change from unit cost minimisation to earning a normal profit?

A W to Y **B** W to Z **C** X to W **D** X to Z

12 What will increase the likelihood that the firms in an industry will collude to maximise their joint profits?

A The industry consists of a large number of producers.

B The industry has many differentiated products.

C The industry is characterised by rapid technological change.

D There are significant barriers to prevent new firms entering the industry.

13 What would economists agree should be the aim of any health care system?

A to meet all the health care demands of the population

B to provide every patient with the latest and best available treatment

C to provide free medical treatment

D to secure the maximum health gain from the resources available

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14 The government of a country decides to increase the proportion of its tax revenue that it obtains from indirect taxes and to reduce the proportion it obtains from income tax.

Total tax revenue is left unchanged.

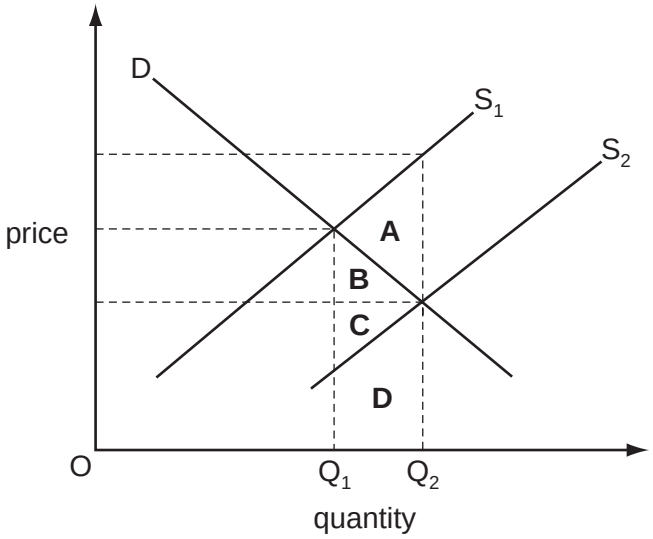
What is likely to be the impact on the distribution of income and on work incentives?

	distribution of income	work incentives
A	less equal	decrease
B	less equal	increase
C	more equal	decrease
D	more equal	increase

15 The diagram shows the supply and demand curves of a commodity.

A government subsidy causes the supply curve to shift from S_1 to S_2.

Which area measures the difference between the cost to the economy of producing the resulting increase in output ($Q_1 – Q_2$) and the value consumers place on this increase in output?



16 Which change would directly affect a country's Human Development Index?

A a change in average hours worked by the labour force

B a change in life expectancy of the population

C a change in the level of carbon dioxide emissions

D a change in the size of the population

17 Despite a government budget deficit, a country's money supply remains unchanged.

What could explain this?

A The country has a balance of payments surplus equal to the government budget deficit.

B The country's foreign exchange rate is fixed.

C The government budget deficit is financed by borrowing from the central bank.

D The government budget deficit is financed by selling government bonds to members of the public.

18 In a closed economy, households pay \$0.10 in tax on every \$1 increase in their gross income, and spend $^5/_6$ of every increase in their disposable income.

What is the value of the multiplier?

A 1.5 **B** 4.0 **C** 6.0 **D** 7.5

19 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	125	62.5	62.5	600
200	100	50	150	75	75	700
200	100	50	175	87.5	87.5	800
200	100	50	200	100	100	900

What is the equilibrium level of national income?

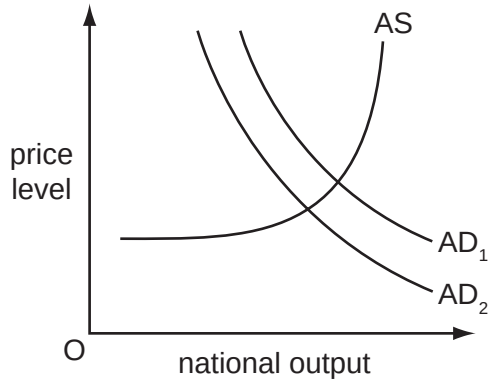
A \$600 m **B** \$700 m **C** \$800 m **D** \$900 m

20 What will be the effect, in the short run, on the price level and on national output of an increase in aggregate demand if firms are working at full capacity?

	price level	national output
A	rise	rise
B	rise	unchanged
C	unchanged	rise
D	unchanged	unchanged

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21 The diagram shows an economy's aggregate demand and aggregate supply curves.



What could cause the aggregate demand curve to shift from AD_1 to AD_2?

A an appreciation in the exchange rate

B an increase in the money supply

C a decrease in the interest rate

D a fall in the unemployment level

22 According to Keynesian analysis, what will be the result of a decrease in the money supply?

A The rate of interest will be reduced, thereby reducing the levels of investment and income.

B The rate of interest will be increased, thereby reducing the levels of investment and income.

C The level of income will be increased as a result of a lower rate of interest and a higher level of investment.

D The price level will fall by the same percentage change as the decrease in the money supply.

23 What will be the likely effects on interest rates and bond prices of an increase in the demand for money?

	interest rates	bond prices
A	fall	fall
B	fall	rise
C	rise	fall
D	rise	rise

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

What is likely to result from this?

A an appreciation of the country's nominal exchange rate

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

C an increase in the country's inflation rate

D an increase in the country's relative labour costs

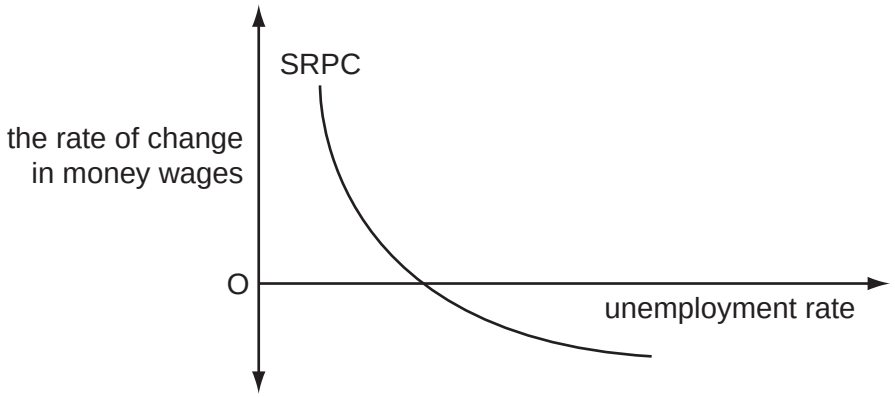
25 A government currently has a balanced budget. It is considering the possible variations in tax revenue and government expenditure shown.

options	tax revenue	government expenditure
W	increase	increase
X	increase	reduce
Y	reduce	increase
Z	reduce	reduce

Which three options have the potential to move the budget into surplus?

A W, X and Y **B** W, X and Z **C** W, Y and Z **D** X, Y and Z

26 The diagram shows an economy's short-run Phillips curve (SRPC).



What is assumed to remain constant when drawing this curve?

A the average price level

B the exchange rate

C the expected rate of inflation

D the money supply

27 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 does this suggest is 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

28 What is **not** a valid economic argument for developing economies to pursue a policy of import substitution?

A to embark on industrialisation as a basis for export-led growth

B to exploit their relative abundance of labour in order to produce labour intensive manufacturing goods

C to increase the opportunities for exporting goods in which they already have a comparative advantage

D to reduce their dependence on a narrow range of primary products

29 Assuming no change in tax rates or tax-free allowances, for which tax would the amount paid in tax become a smaller proportion of taxpayers' income during a period of wage and price inflation?

A a progressive income tax

B a specific tax on tobacco

C capital gains tax

D value added tax

30 An economy has a flexible exchange rate. It raises interest rates above the level existing in other countries.

What will be the likely effect on the level of domestic demand for goods and services and on the demand for the country's exports?

	domestic demand	export demand
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

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UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Level

ECONOMICS **9708/33**

Paper 3 Multiple Choice (supplement) **October/November 2011**

1 hour

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

9326843145

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.

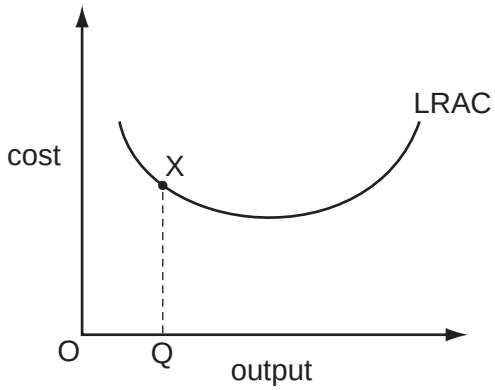
Read the instructions on the Answer Sheet very carefully.

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 **13** printed pages and **3** blank pages.

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1 In the diagram, a firm is operating at point X on its long-run average cost curve.



Which statement is **not** correct?

A The firm is employing the least-cost combination of factor inputs to produce OQ.

B The firm is operating below its minimum efficient scale.

C The firm is producing at its cost-minimising level of output.

D The firm is producing output OQ at minimum cost.

2 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.

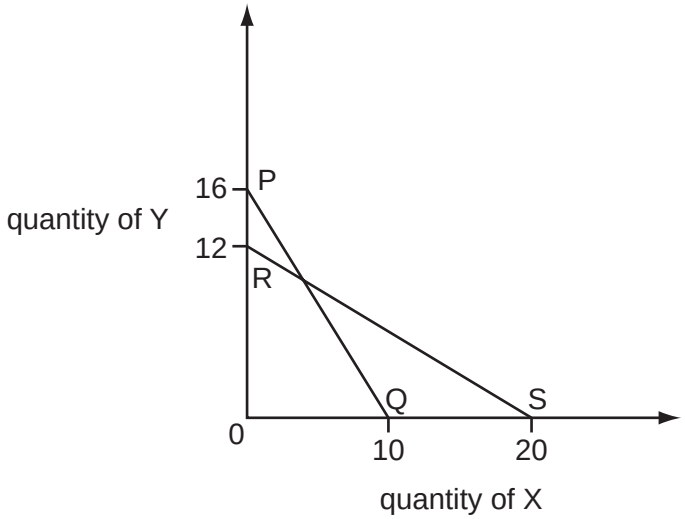
B marginal utility of X plus marginal utility of Y is maximised.

C marginal utility of X = marginal utility of Y.

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

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3 In the diagram PQ is a consumer's original budget line.



The consumer's income increases from $80 to $120 and, at the same time, the prices of X and Y change.

If the consumer's budget line is now RS, what are the new prices of X and Y?

	price of X ($)	price of Y ($)
A	4	12
B	6	10
C	10	8
D	12	6

4 What will cause the supply curve of labour in a particular industry to shift to the left?

A a fall in demand for the industry's product

B a greater use of machinery in the production of the industry's output

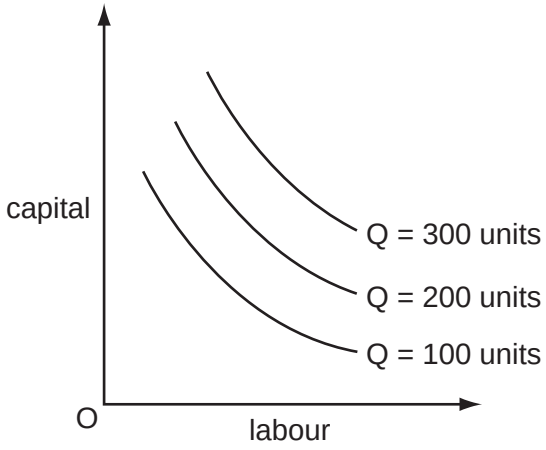
C a rise in wages paid in similar occupations in other industries

D a weakening of trade union influence in the industry

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5 A firm employs two factors of production, capital and labour.

The curves in the diagram show the different combinations of capital and labour a firm needs to produce given levels of output.



What does the diagram show?

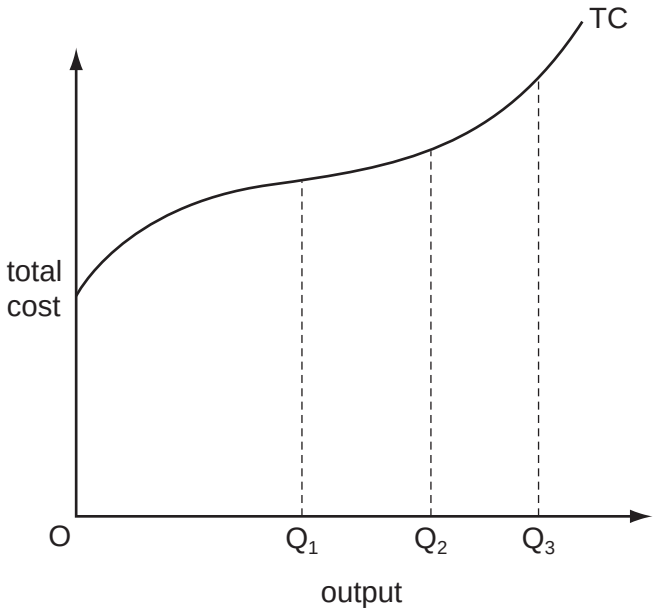
A the firm's long-run production function

B the firm's long-run total cost function

C the firm's short-run production function

D the firm's short-run total cost function

6 The diagram shows a firm's short-run total cost curve (TC).



Which statement is correct?

A Average total cost is minimised at output OQ_1.

B Average variable cost is minimised at output OQ_2.

C Average variable cost is minimised at output OQ_3.

D Marginal cost is minimised at output OQ_2.

7 What is **not** one of the roles prices play in a perfectly competitive market economy?

A to provide a rationing mechanism for allocating goods between consumers

B to provide incentives to producers to respond to changes in consumer demands

C to provide information to consumers about the quality of different products

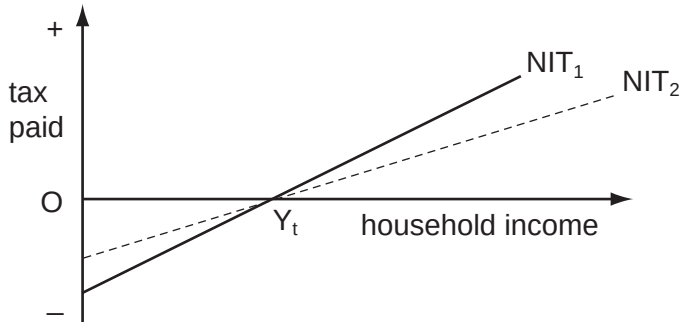
D to provide information to producers about changes in consumer preferences

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8 Which practices would be classified as price discrimination?

	charging higher rail fares for peak period travel to meet the additional costs of train companies	charging lower return fares from Kuala Lumpur to Hong Kong for passengers who stay overnight on a Saturday in Hong Kong
A	no	no
B	no	yes
C	yes	no
D	yes	yes

9 The diagram illustrates the working of a negative income tax system (NIT), where households with incomes above Y_t pay tax and those with incomes below Y_t receive a tax credit.



What would be the effects of decreasing the effective tax rate, thereby causing the NIT schedule to shift from NIT_1 to NIT_2?

	effect on work incentives	effect on net tax revenue
A	decrease	increase
B	decrease	uncertain
C	increase	increase
D	increase	uncertain

10 Which commodities should a government tax if it wishes to make the tax system more progressive?

A those for which demand is price elastic

B those for which demand is price inelastic

C those with an income elasticity of demand greater than one

D those with an income elasticity of demand less than one

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11 The Chinese government is increasing the role of market forces in its economy. However, in 2008 it imposed temporary maximum price controls on energy and transport.

Why might a government, committed to reducing central planning, introduce price controls?

A to increase allocative efficiency

B to increase the incentive for producers to raise supply

C to reduce consumer demand

D to reduce expectations of inflation

12 The table gives information about two countries in 1994 and 2004.

country	GNP (local currencies)		population (thousands)		prices (1994 = 100)
	1994	2004	1994	2004	2004
1	5 000	18 000	5 000	5 500	300
2	10 000	20 000	3 000	3 300	200

From the data in the table, what can be concluded about the real GNP per head?

A It fell in country 2 only.

B It fell in countries 1 and 2.

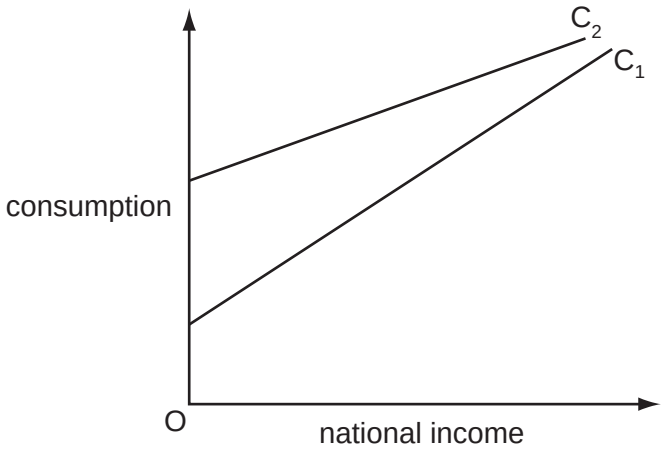
C It rose in countries 1 and 2.

D It rose in country 2 only.

13 According to monetarist theory, if there is an unanticipated increase in the money supply what will be the short-run effect on money wages, real wages and the level of employment?

	money wages	real wages	employment
A	increase	decrease	increase
B	increase	increase	decrease
C	decrease	increase	decrease
D	decrease	decrease	increase

14 In the diagram, C_1 shows the relationship between consumption and national income.



What could cause the consumption function to shift to C_2?

A an increase in exports

B an increase in the rate of interest

C an increase in the rate of unemployment benefits

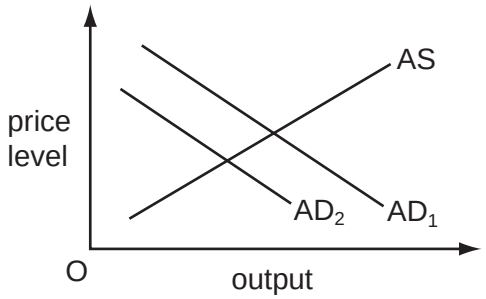
D an increase in the standard rate of income tax

15 In a closed economy with no government, the value of the investment multiplier is 5.

By how much will **consumption** increase, if investment increases by $300?

A $540 **B** $1000 **C** $1200 **D** $1500

16 In the diagram, AD_1 and AS are an economy's original aggregate demand and aggregate supply curves.



What will cause the aggregate demand curve to shift to AD_2?

A an appreciation of the currency

B an increase in the money supply

C an increase in the price level

D an increase in the real wage

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17 In an economy, the volume of output rises by 2 % in a year, while the quantity of money rises by 5 %.

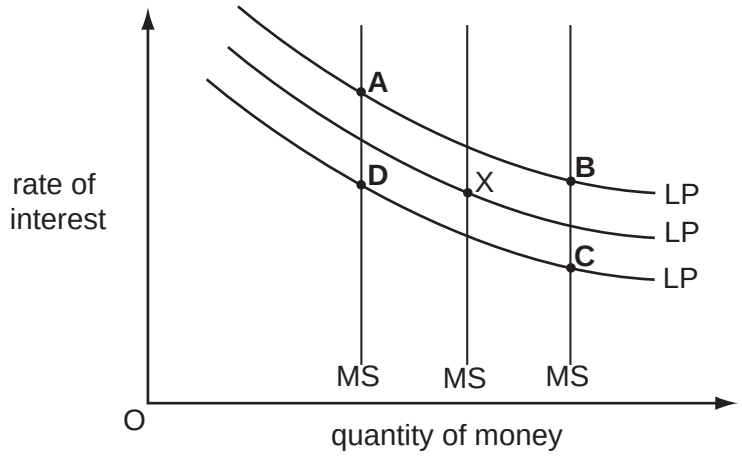
If the velocity of circulation of money remains the same, what will be the approximate increases in the price level and the money value of national income?

	increase in price level	increase in money value of national income
A	2 %	5 %
B	2 %	7 %
C	3 %	5 %
D	3 %	7 %

18 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?



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

A a high rate of saving

B a low rate of economic growth in past periods

C a low rate of inflation

D a low rate of population growth

20 What is likely to increase a country's actual output in the short run but may reduce its long-run rate of growth of potential output?

A an increase in the size of the government's budget deficit

B an increase in the size of the labour force

C increased female participation in the labour force

D increased government spending on education

21 What is a likely consequence of an increase in cyclical unemployment?

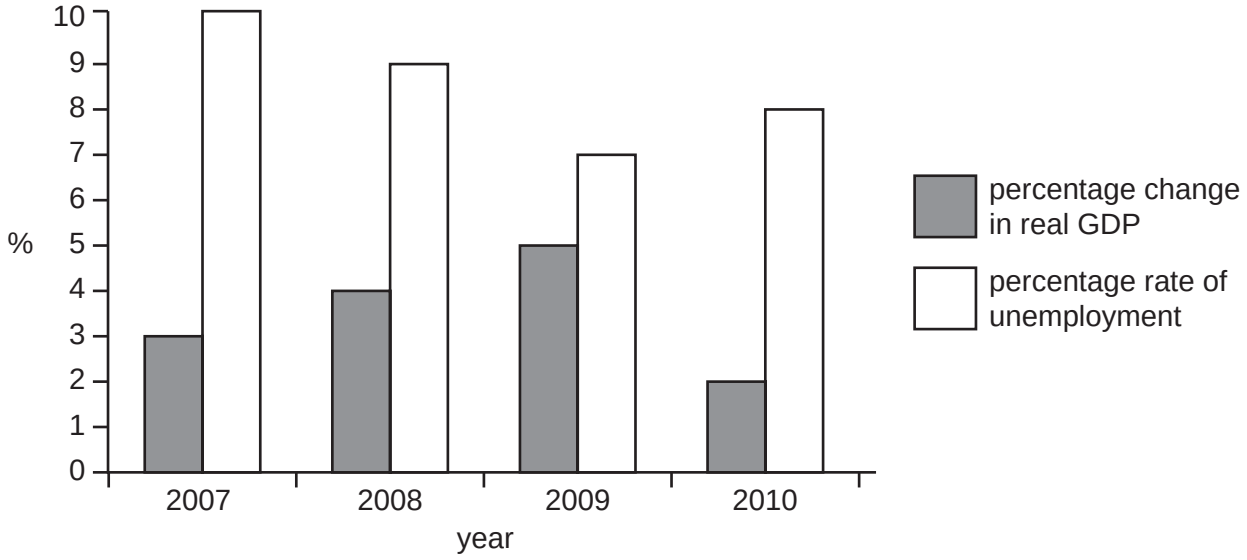
A a deficit on the current account of the balance of payments

B a deterioration in the fiscal balance of the government

C an increased rate of inflation

D an increase in immigration

22 The chart shows the rates of economic growth and unemployment in a country for the period 2007 to 2010.



What does the chart show?

A Real GDP was lowest in 2010.

B The standard of living fell between 2009 and 2010.

C The total labour force declined between 2007 and 2009.

D The unemployment rate fell when the growth rate increased.

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23 Why are high and variable rates of inflation likely to be harmful to long-run economic growth?

A They hide relative price changes leading to a misallocation of resources.

B They increase the real burden of household debt leading to lower consumption.

C They lead to an increase in the household saving ratio.

D They result in an increase in real interest rates.

24 Economists have proposed that the best policy to promote development is 'trade not aid'.

What is implied by this proposal?

A Developing countries should become self-sufficient and not rely on aid.

B Developing countries should be given greater access to markets in developed countries.

C Developing countries should use foreign aid to invest in their export industries.

D Developing countries should use trade barriers to promote import substitution.

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

A a reduction in local wage levels

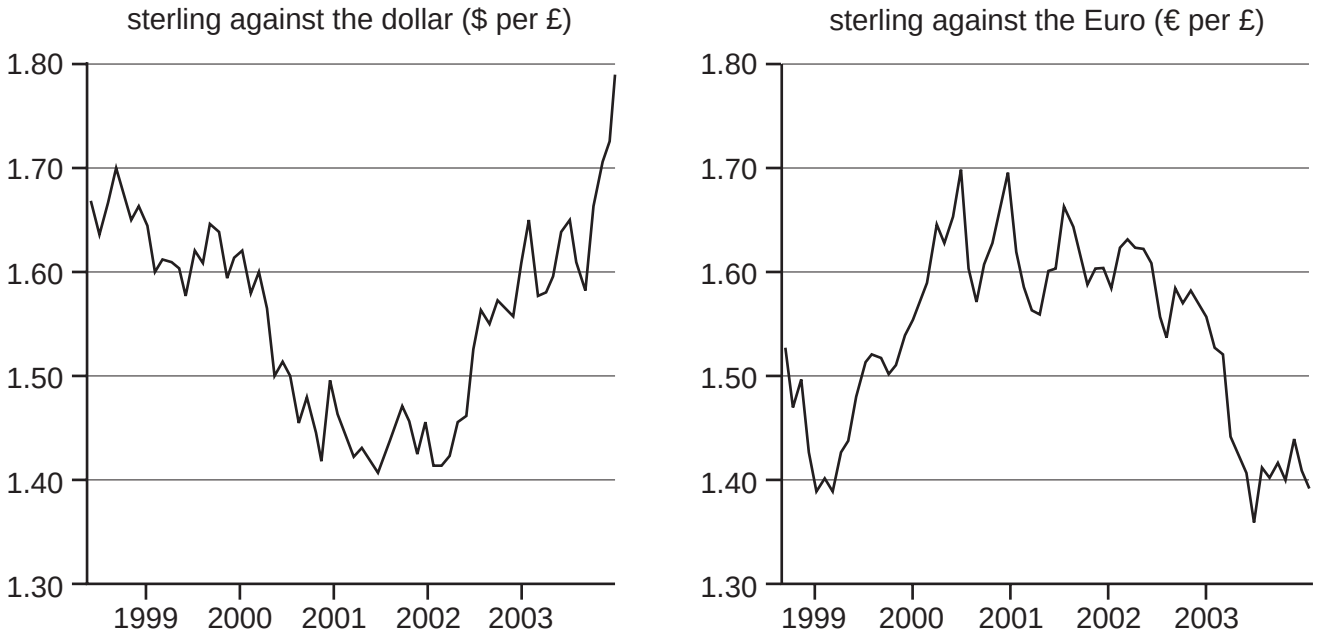
B a reduction in tax revenues in developing economies

C a reduction in the range of consumer goods available to the local population

D a worsening of net income flows from investments

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26 The graphs show the changes in the exchange rate of the £ sterling against the US $ and against the Euro between 1998 and 2003.



Which statement is **incorrect**?

A Between 1998 and 2001 the £ sterling depreciated against the US $.

B Between 1998 and 2001 the £ sterling appreciated against the Euro.

C Between 1998 and 2001 the Euro depreciated against the US $.

D Between 2001 and 2003 the US $ appreciated against the Euro.

27 A regressive tax is defined as one where

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

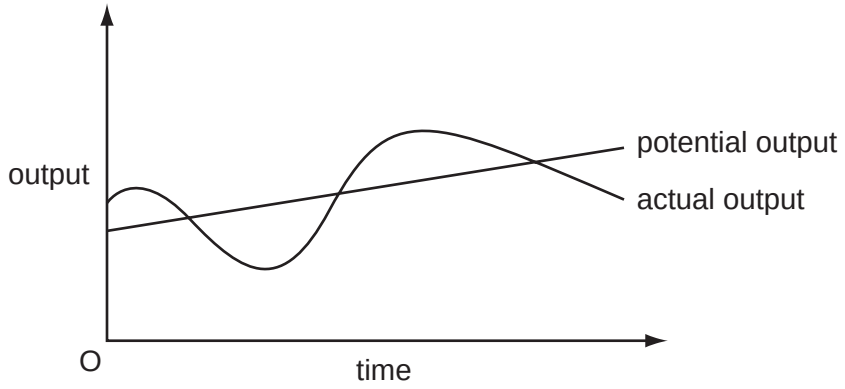
B high income earners pay a lower proportion of their income in taxes than low income earners.

C high income earners pay less in taxes than low income earners.

D high income earners pay more in taxes than low income earners.

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28 The diagram shows the time path of actual output and of long-term potential output of an economy.



What would help to reduce the divergence of actual output from potential output?

A a balanced budget

B a stable exchange rate

C automatic stabilisers

D stable interest rates

29 When might the effectiveness of fiscal expansion in increasing the level of output be increased?

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

B when it leads to an appreciation of the country's exchange rate

C when it results in a decrease in the price of government bonds

D when the price level increases

30 Which statement describes the operation of the law of variable proportions?

A As all factors are increased in proportion, the marginal cost of production increases.

B As all factors are increased in proportion, total product rises at a diminishing rate.

C As more of a variable factor is added to a fixed factor, the marginal cost of production diminishes.

D As more of a variable factor is added to a fixed factor, total product rises at a diminishing rate.

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