www.XtremePapers.com

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Level

ECONOMICS **9708/31**

Paper 3 Multiple Choice (Supplement) **October/November 2012**

1 hour

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

3039896471

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.

© UCLES 2012

1 In an economy, no one can be made better off without making someone else worse off.

What does **not** necessarily follow from this?

A The conditions for allocative efficiency have been met.

B The conditions for productive efficiency have been met.

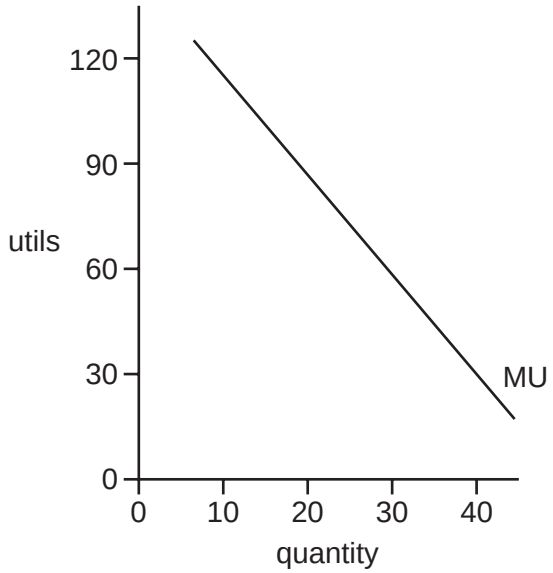
C The distribution of income is socially acceptable.

D The economy is operating at a point on its production possibility frontier.

2 The table gives information about an individual's consumption of good X.

price of good X	$10
quantity demanded (units)	25
marginal utility (utils)	30

The diagram shows the marginal utility a consumer derives from the consumption of good Y.



Assuming no change in the price of good X, by how much will the individual's consumption of good Y increase if the price falls from $30 to $20?

A 5 units **B** 10 units **C** 20 units **D** 30 units

© UCLES 2012

3 When the price of a good changes, the effect on quantity demanded is the result of an income and a substitution effect.

Which statement about these effects is always correct?

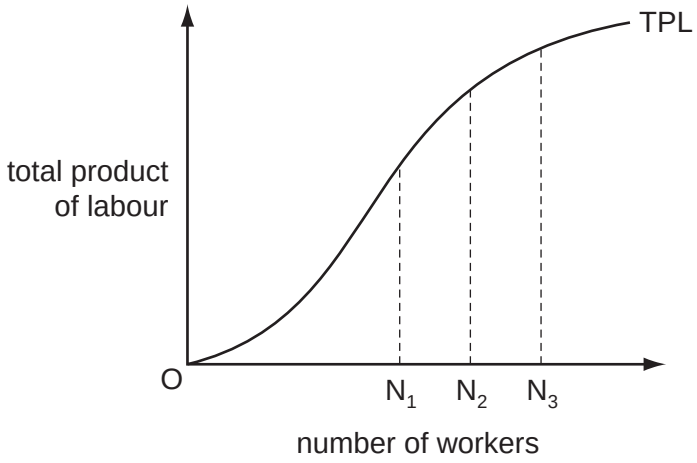
A For inferior goods, the income effect and substitution effect work in the same direction.

B For inferior goods, the substitution effect outweighs the income 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.

4 The diagram shows a firm's total product of labour curve.



Which statement is correct?

A The average product of labour is maximised at ON_1.

B The average product of labour is maximised at ON_3.

C The marginal product of labour is maximised at ON_1.

D The marginal product of labour is maximised at ON_2.

5 What could cause a perfectly competitive firm's marginal revenue product of labour curve to shift to the right?

A an increase in wages

B a higher rate of sales tax

C an increase in labour supply

D a rise in the price of the final product

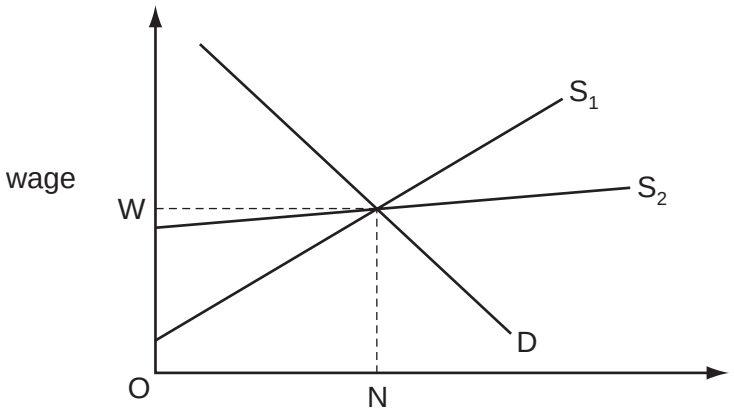
6 A firm currently employs 30 workers at a daily wage of $50.

The marginal cost of employing one extra worker is $112 per day.

By how much will the firm have to increase the daily wage in order to increase its labour force from 30 to 31 workers?

A 2% **B** 4% **C** 6.3% **D** 7.5%

7 The diagram represents the market for labour.



What would be the effect on transfer earnings and economic rent of a change in the supply curve from S_1 to S_2?

	transfer earnings	economic rent
A	fall	falls
B	fall	rises
C	rise	rises
D	rise	falls

8 Which is a risk-bearing economy of scale?

A greater bargaining power in purchasing from suppliers

B greater diversification of the product range

C lower costs in raising capital

D lower distribution costs by increasing market share

© UCLES 2012

9 A firm estimates that, all else remaining unchanged, an increase in its output would leave its revenue unchanged.

What can be deduced from this about the price elasticity of demand for the firm's product?

A It is –1.

B It is +1.

C It is perfectly inelastic.

D It is perfectly elastic.

10 A firm currently aims to maximise its sales revenue.

What is likely to happen if the firm decides instead to aim at maximising profit?

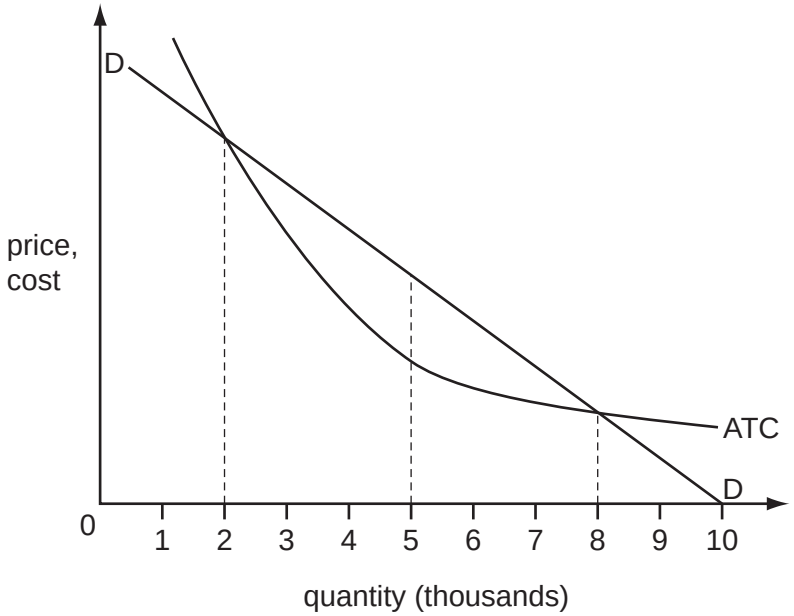
A a reduction in the price of the firm's product

B a reduction in the price of the firm's shares

C a reduction in the firm's market share

D an increase in the number employed by the firm

11 In the diagram, DD is the demand curve facing a monopoly producer, and the rectangular hyperbola ATC is the firm's average total cost curve.



What is the firm's profit maximising level of output?

A 2000 units

B 5000 units

C 8000 units

D 10 000 units

12 Firms X, Y and Z are profit maximising private firms.
X operates in a perfectly competitive industry, Y in a monopolistically competitive industry and Z is a single monopolist.

Which statement is correct?

A Only X satisfies the condition for allocative efficiency.

B Only X faces no barriers to entry in the long run.

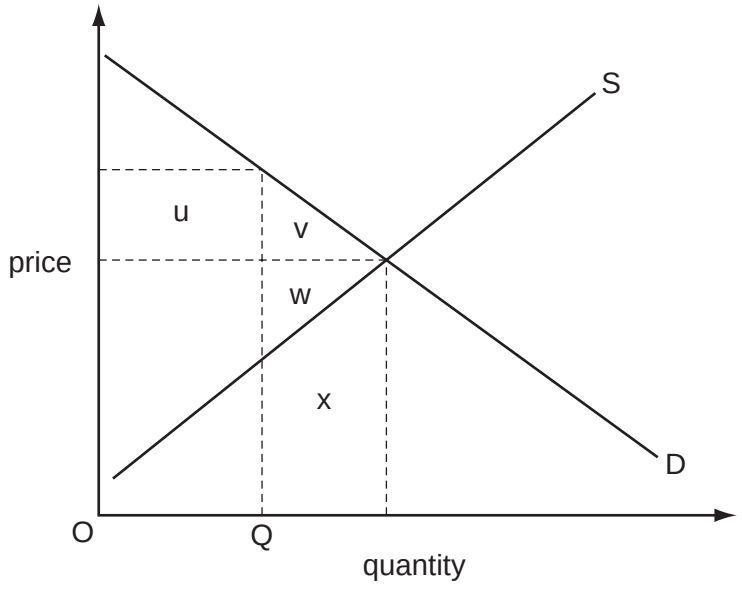
C Only Y and Z can make a supernormal profit in the long run.

D Only Z is a price maker.

13 What would be the short-run effect on price, output and profits of an increase in demand for the product of a monopolistically competitive firm?

	price	output	profits
A	increase	increase	increase
B	increase	no change	decrease
C	no change	increase	increase
D	no change	no change	increase

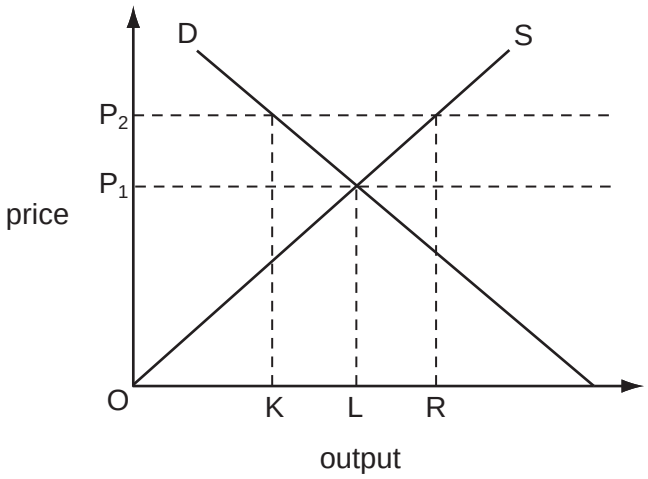
14 The diagram shows an industry's supply and demand curves.



In the absence of externalities, which area in the diagram measures the net loss in economic welfare if the government restricts the level of output to OQ?

A u + v **B** v + w **C** x **D** v + w + x

15 The diagram shows the market supply and demand curves for corn.



What should a government do if it is to maintain a minimum price of OP_2?

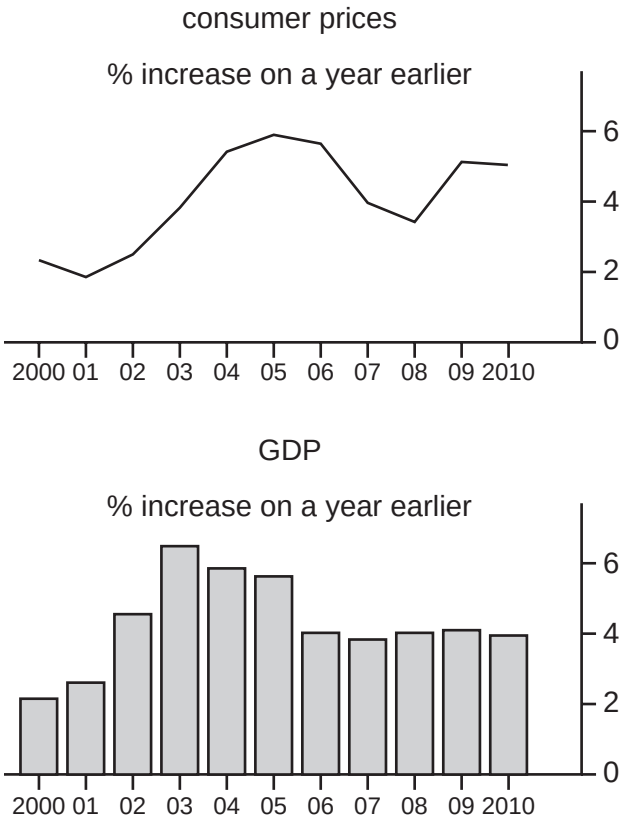
A buy quantity KR

B buy quantity LR

C sell quantity KL

D sell quantity OL

16 The graphs show how consumer prices and real GDP changed in a country between 2000 and 2010.



Which conclusion may be drawn from the graphs?

A The level of GDP was lower in 2010 than in 2005.

B The price level fell between 2005 and 2008.

C Living standards remained roughly constant between 2000 and 2010.

D The country experienced continuous economic growth between 2000 and 2010.

17 Which asset would **not** be included in a country's broad money supply?

A deposits in commercial banks held for specified minimum periods of time

B deposits in commercial banks transferable by cheque

C deposits in the central bank held by commercial banks

D notes and coins held by private individuals

18 Which represents a leakage from an economy's circular flow of income?

A a government budget surplus

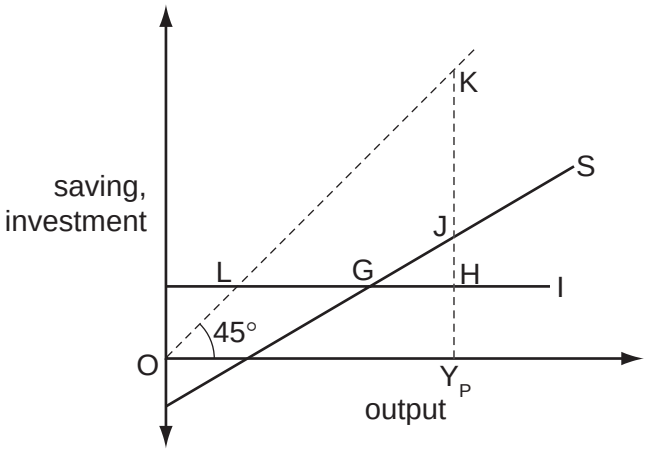
B bank loans to private companies

C foreign direct investment in the economy

D the sale of assets by the country's households

© UCLES 2012

19 The diagram shows the saving and investment curves of a closed economy with no government.

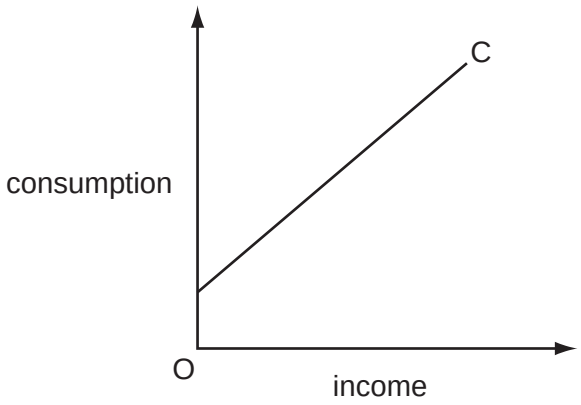


The potential level of output is OY_P.

Which distance measures the gap between actual and potential output?

A KJ **B** JH **C** LG **D** GH

20 The diagram shows the relationship between consumption expenditure and income.



Which statement is correct?

A The average propensity to consume is falling.

B The average propensity to consume is rising.

C The marginal propensity to consume is rising.

D The marginal propensity to consume is falling.

21 A 6 % increase in the money supply leads to a 10 % increase in the level of money income.

What can be deduced from this?

A There has been an increase in the level of output.

B There has been an increase in interest rates.

C There has been an increase in the velocity of circulation.

D The price level has increased by 4 %.

22 Despite a balance of payments deficit a country's money supply remains unchanged.

What could explain this?

A The country's foreign exchange rate is fixed.

B The government runs a budget surplus.

C There is a fall in the country's foreign exchange reserves.

D The government runs a budget deficit financed by borrowing from the central bank.

23 What is most likely to lead in the long run to an increase in world real GDP per head?

A faster population growth

B trade liberalisation

C a lower propensity to save

D faster growth of the money supply

24 Which government policy would boost economic growth but **not** necessarily promote economic development?

A creating a more equal distribution of income and wealth

B diverting government spending from industry to education

C encouraging the extraction of finite natural resources

D introducing tighter controls on air pollution

25 Which type of unemployment is associated with a deficiency in aggregate demand?

A cyclical

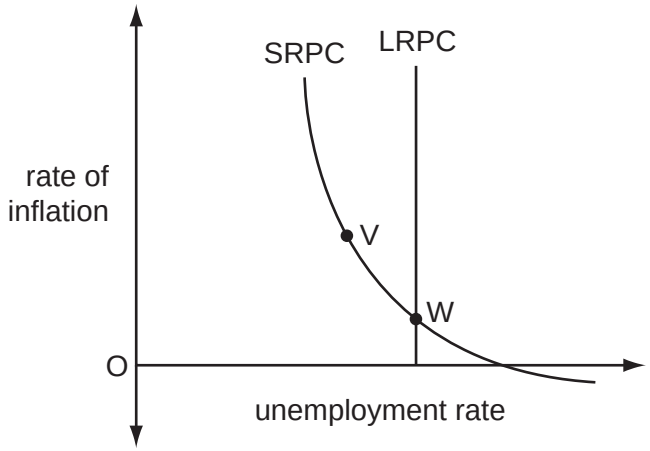
B frictional

C structural

D voluntary

© UCLES 2012

26 In the diagram, SRPC is an economy's short-run Phillips curve and LRPC is its long-run Phillips curve.



The economy is initially at point W.

An increase in monetary growth moves the economy to point V.

Why is it that the economy **cannot** stay at point V?

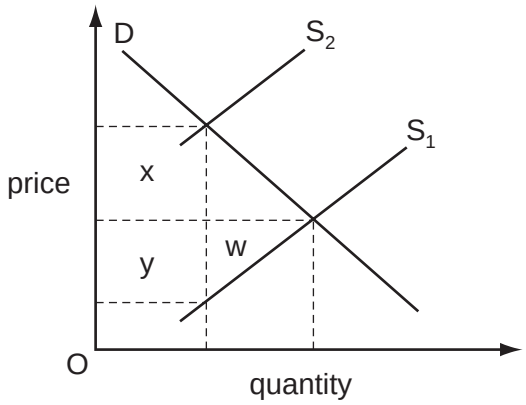
	rate of inflation at point V	unemployment rate at point V
A	above the expected rate	above the natural rate
B	above the expected rate	below the natural rate
C	below the expected rate	above the natural rate
D	below the expected rate	below the natural rate

27 A country has a floating exchange rate and an independent central bank with the power to set interest rates. The rate of inflation is currently stable at the central bank's target rate of 2%.

If the central bank's inflation target is raised from 2 % to 5 %, what is likely to happen to interest rates and the exchange rate?

	interest rates	exchange rate
A	fall	fall
B	fall	rise
C	rise	fall
D	rise	rise

28 In the diagram D is the demand curve for Indian tea exports and S_1 is the initial supply curve.



The Indian government imposes a tax on tea exports, which causes the supply curve to shift to S_2.

Which areas in the diagram measure the resulting gain in tax revenue to the Indian government and the resulting loss in producer surplus to its tea producers?

	gain in tax revenue	loss in producer surplus
A	x	w + y
B	x + y	y
C	x	y
D	x + y	w + y

29 Which action is consistent with a policy of 'trade not aid'?

A abolishing subsidies paid to producers in developed economies

B encouraging the activities in developing countries of non-governmental organisations (NGOs)

C limiting the activities of multinational companies (MNCs) from developed economies

D reducing the size of quotas on imports from developing countries

© UCLES 2012

30 A government decides to pursue a more reflationary fiscal policy and a more deflationary monetary policy.

Which combination of changes in policy instruments is consistent with this?

	government expenditure	interest rate	taxation
A	decrease	decrease	increase
B	decrease	decrease	decrease
C	increase	increase	decrease
D	increase	increase	increase

© UCLES 2012

BLANK PAGE

BLANK PAGE

BLANK PAGE

Permission to reproduce items where third-party owned material protected by copyright is included has been sought and cleared where possible. Every reasonable effort has been made by the publisher (UCLES) to trace copyright holders, but if any items requiring clearance have unwittingly been included, the publisher will be pleased to make amends at the earliest possible opportunity.

University of Cambridge International Examinations is part of the Cambridge Assessment Group. Cambridge Assessment is the brand name of University of Cambridge Local Examinations Syndicate (UCLES), which is itself a department of the University of Cambridge.

www.XtremePapers.com

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Level

ECONOMICS **9708/32**

Paper 3 Multiple Choice (Supplement) **October/November 2012**

1 hour

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

5150638138

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.

IB12 11_9708_32/3RP
© UCLES 2012

1 What will happen if a firm is subsidised by an amount equal to the external benefits that it confers on the rest of society?

A There will be no effect upon production.

B The firm will produce less.

C There will be a misallocation of resources.

D Resource allocation will be improved.

2 A consumer who aims to maximise his utility will arrange his consumption so that

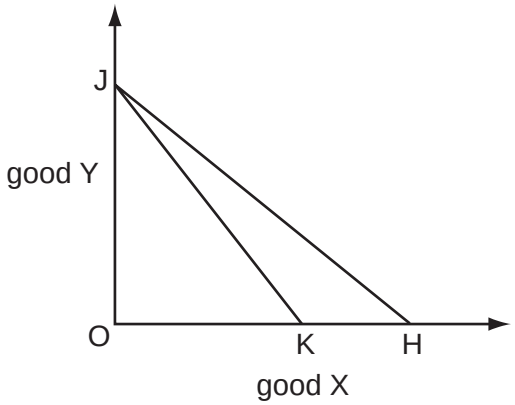
A the total utility obtained from each commodity is the same.

B the total utility per $ spent on each commodity is the same.

C the same utility is obtained from the last unit of each commodity.

D the same utility is obtained from the last unit of expenditure on each commodity.

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



What can definitely be concluded from the diagram?

A There has been a decrease in the price of good Y.

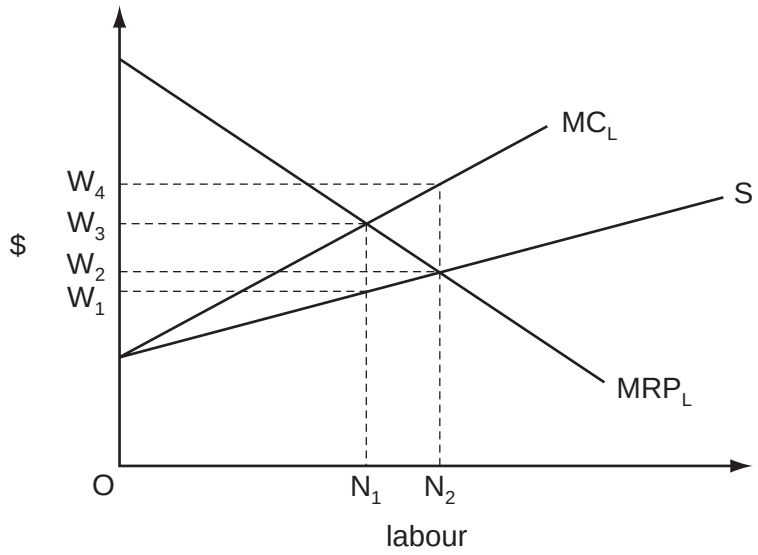
B There has been a decrease in the consumer's money income.

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

D There has been no change in the price of good X.

© UCLES 2012

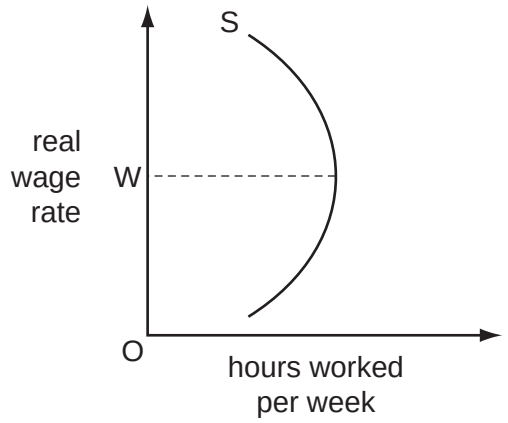
4 In the diagram, MRP_L is a firm's marginal revenue product of labour curve, S is its supply of labour curve, and MC_L its marginal cost of labour curve.



Assuming profit maximisation, how many workers will the firm employ and what wage will it pay?

	number employed	wage
A	N_1	W_1
B	N_1	W_3
C	N_2	W_2
D	N_2	W_4

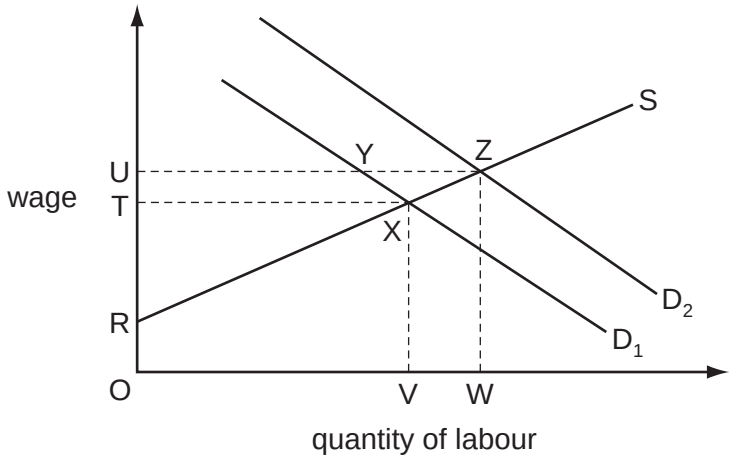
5 The diagram shows a backward sloping supply curve of labour.



What is correct about the substitution effect and the income effect when the real wage rises above OW?

	substitution effect	income effect
A	negative	negative
B	negative	positive
C	positive	negative
D	positive	positive

6 In the diagram D_1 and S are the initial demand and supply curves for building workers.



If the demand for building workers increases to D_2 by how much does the economic rent earned by building workers rise?

A RZU **B** TXZU **C** VWZX **D** XZY

7 What would be the effect of imposing a specific tax on each item produced by a profit maximising monopolist?

A Average revenue falls by the amount of the tax.

B Marginal costs rise by the amount of the tax.

C Price increases by the amount of the tax.

D There will be no change in price or output.

8 An economist calculates that an owner-managed firm has incurred the following costs over the course of a year.

	$(000)
wages of two employees	150
fee paid to wife for secretarial services	20
opportunity cost of owner's time	30
materials	80
rent	30
marketing fees	20
interest on bank loans	25
interest forgone on finance provided by owner	15

By how much does total cost as defined by an economist exceed the total cost as defined by an accountant?

A $15 000 **B** $30 000 **C** $45 000 **D** $65 000

9 A manufacturing firm has one plant of optimum size.

The firm builds a second plant identical to its first plant. The firm then finds that its long-run average cost has risen.

What could account for the change in its long-run average cost?

A diminishing returns

B external diseconomies of scale

C managerial diseconomies of scale

D technical diseconomies of scale

© UCLES 2012

10 What is most likely to be associated with a firm that is growing rapidly?

A a high rate of labour turnover

B a low level of net investment

C a low percentage of profits paid as dividends to shareholders

D attainment of the necessary conditions for allocative efficiency

11 What is meant by a four firm concentration ratio of 25 %?

A The largest four firms' market share totals 25 %.

B The largest four firms have a market share of 25 % each.

C There are only four firms in the industry.

D The largest firm has a 25 % market share.

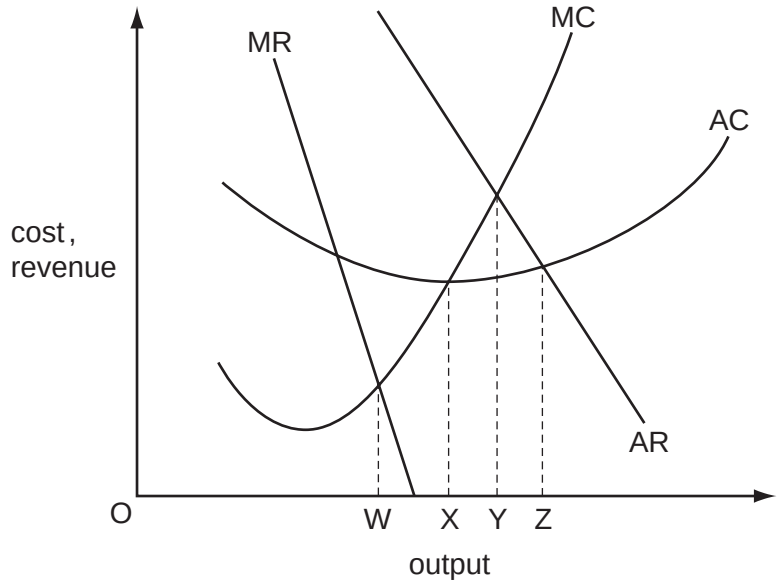
12 Instead of charging all its customers the same price, a firm decides to charge different prices in different markets.

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

	consumer surplus	marketing costs
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

© UCLES 2012

13 The diagram shows a profit-maximising firm's cost and revenue curves.



What would be the increase in the firm's output if it was required to charge a price equal to marginal cost?

A WX **B** XY **C** WY **D** XZ

14 All firms in an economy produce at levels of output where price and marginal private cost are equal.

Why might this **not** be sufficient to ensure that allocative efficiency is achieved?

A a small number of buyers and sellers

B differences in consumers' preferences

C product differentiation

D the presence of externalities

15 What is most likely to be regressive?

A corporate profit taxes

B state pension benefits

C specific tax on cigarettes

D unemployment benefits

© UCLES 2012

16 Over a given period, the nominal value of a country's national income increased by 20 % and the rate of inflation was 10 %.

What can be deduced from this information?

A There was an increase in the volume of output.

B There was a reduction in the demand for money.

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

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

17 An economist wishes to judge whether an economy's budget deficit is excessive.

What would be the most appropriate way to measure the budget deficit when making this judgement?

A as a percentage of foreign currency reserves

B as a percentage of GDP

C in inflation adjusted terms

D in purchasing power parity terms

18 In a closed economy with no government, the level of investment is $5 million, the equilibrium level of income is $22 million, the full employment level of income is $25 million and there is a deflationary gap of $1 million.

What can be deduced from this information?

A The marginal propensity to consume is $\frac{2}{3}$.

B The marginal propensity to consume is $\frac{1}{3}$.

C The value of the investment multiplier is 5.

D The value of the investment multiplier is 1.5.

© UCLES 2012

19 The table gives the national income of a country over six years.

year	national income (Y)
1	2100
2	2110
3	2125
4	2135
5	2140
6	2135

According to the accelerator principle, in which year did net investment first fall to a level below that of the previous year?

A year 3 **B** year 4 **C** year 5 **D** year 6

20 In 2009 the US central bank, the Federal Reserve, increased the money supply.

Which policy measure taken by the Federal Reserve would have achieved this outcome?

A a purchase of government securities in the open market

B a reduction in the issue of short-term government debt

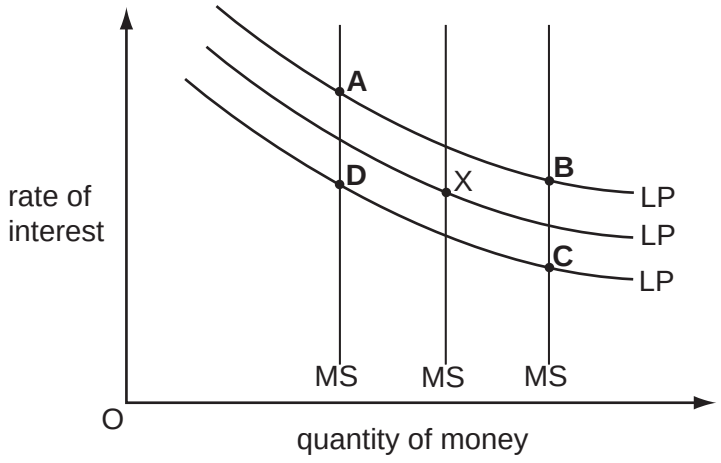
C a requirement for commercial banks to increase their liquidity ratios

D an increase in the bank rate

21 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?

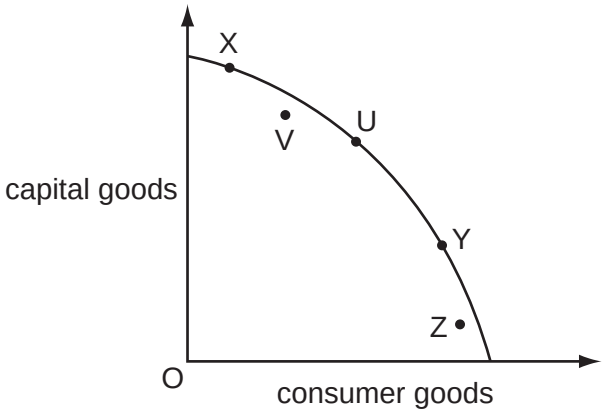


22 An economy's unemployment rate is below the natural rate.

What is likely to be the implications of this for inflation and what can be deduced from this about the economy's actual level of output?

	inflation	actual output
A	accelerating	below potential output
B	accelerating	above potential output
C	decelerating	below potential output
D	decelerating	above potential output

23 The diagram shows a country's production possibility curve and a number of alternative production points.



Which change in the country's output would be most likely to lead to a fall in potential growth?

A U to V **B** U to X **C** Y to X **D** Y to Z

24 What is most likely to lead to an increase in the natural rate of unemployment?

A more rapid technological and structural change

B a widening in regional wage differentials

C a narrowing in regional house price differentials

D a decrease in trade union membership

25 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

© UCLES 2012

26 What will assist a country's potential growth in national output?

A an increase in cyclical unemployment

B an increase in the rate of inflation

C an increase in the government's budget deficit

D increased participation in the labour force

27 How might a developing economy gain from a multilateral reduction in import tariffs and the removal by developed economies of subsidies on food exports?

A through increased specialisation leading to higher productivity

B through increased ability to protect infant industries

C through a reduction in the cost to the economy of imported food

D through increased tariff revenues

28 During a recession, a government increases its expenditure on goods and services by $10 million but leaves tax rates unchanged.

Why might the subsequent increase in national income be less than $10 million?

A Increased government borrowing increases interest rates.

B The marginal propensity to consume is less than 1.

C The marginal propensity to import is greater than 0.

D There is no accelerator effect on investment.

29 Why is it more effective to increase regressive taxes rather than progressive taxes when pursuing a deflationary fiscal policy?

A Changes in VAT have minimal effect on consumers' spending.

B It is much more unfair to increase progressive taxes.

C Many workers reduce the hours they work when income taxes are raised.

D Low income households spend a larger proportion of their incomes.

© UCLES 2012

30 In an economy, the marginal propensity to consume of the unemployed is higher than that of taxpayers.

The government increases expenditure on unemployment benefits by $10 million.

What will the government need to do if it wishes to keep aggregate demand unchanged?

A raise taxation by less than $10 million

B raise taxation by more than $10 million

C raise taxation by $10 million

D leave taxes unchanged

Permission to reproduce items where third-party owned material protected by copyright is included has been sought and cleared where possible. Every reasonable effort has been made by the publisher (UCLES) to trace copyright holders, but if any items requiring clearance have unwittingly been included, the publisher will be pleased to make amends at the earliest possible opportunity.

University of Cambridge International Examinations is part of the Cambridge Assessment Group. Cambridge Assessment is the brand name of University of Cambridge Local Examinations Syndicate (UCLES), which is itself a department of the University of Cambridge.

© UCLES 2012

www.XtremePapers.com

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Level

ECONOMICS **9708/33**

Paper 3 Multiple Choice (Supplement) **October/November 2012**

1 hour

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

* 1 8 6 5 5 4 3 6 7 7 *

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 **10** printed pages and **2** blank pages.

© UCLES 2012

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

What is true about the way the economy's resources are being allocated at this point?

	allocatively efficient	productively efficient	socially desirable
A	yes	yes	possibly
B	possibly	yes	yes
C	possibly	possibly	possibly
D	yes	possibly	yes

2 A household which spends all of its income on bananas and apples makes the following purchases.

fruit	quantity purchased (kg)	price per kg ($)
bananas	5	2.50
apples	10	1.00

The household derives twice as much utility from the fifth kg of bananas as from the tenth kg of apples.

What should the household do to maximise utility from the purchase of these fruits?

	purchase of bananas	purchase of apples
A	increase	decrease
B	decrease	increase
C	no change	decrease
D	no change	increase

3 Why will the quantity demanded increase when the price of a normal good falls?

A The income and substitution effects are both positive.

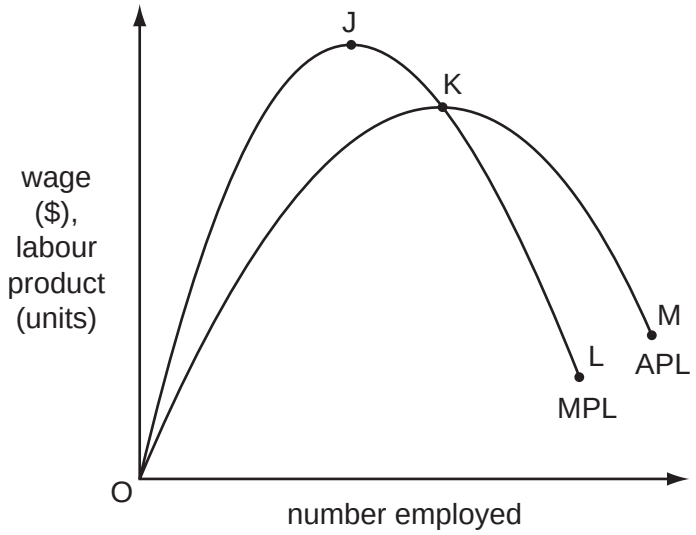
B The income and substitution effects are both negative.

C The negative income effect is greater than the positive substitution effect.

D The positive income effect is greater than the negative substitution effect.

© UCLES 2012

4 The diagram shows a perfectly competitive firm's average product of labour and marginal product of labour curves.



The market price of the firm's product is $1.

Which segment of the curves represents the firm's demand for labour curve?

A OJ **B** JK **C** KL **D** KM

5 To increase its labour force from 30 to 31 workers, a firm has to increase the daily wage rate from $50 to $52.

What is the marginal cost of labour per day?

A $52 **B** $62 **C** $112 **D** $1612

6 A trade union seeks to increase the wages a firm pays to its workers while at the same time preserving jobs.

What will strengthen the union's negotiating position?

A Capital and labour are close substitutes.

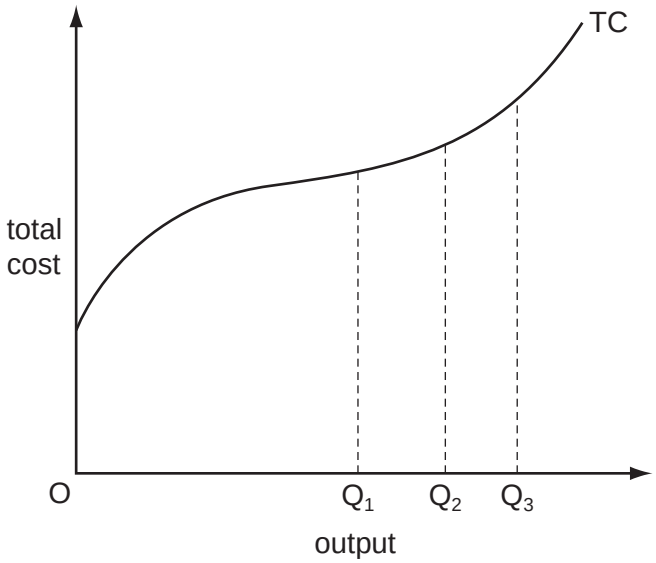
B The demand for the good produced by the firm is price elastic.

C The supply of labour to the firm is perfectly elastic.

D The firm operates in a monopsonistic labour market.

© UCLES 2012

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



Which statement is correct?

A Average variable cost is minimised at output OQ_3.

B Marginal cost is minimised at output OQ_1.

C Average variable cost is minimised at output OQ_1.

D Average total cost is minimised at output OQ_2.

8 A firm employs three factors of production. The table shows the marginal products of these factors and their respective costs at the current level of output.

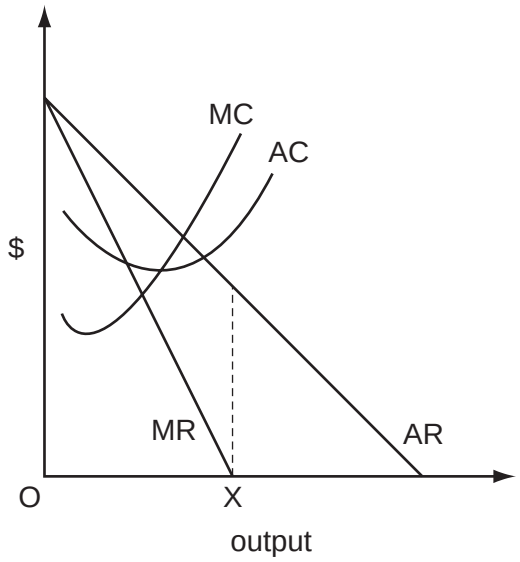
	land	labour	capital
marginal product (units)	4	2	9
marginal cost per unit of factor ($)	4	6	3

Which adjustment in factor use would be most likely to bring the firm nearer to the least-cost combination of inputs for its current output level?

	land	labour	capital
A	no change	more	more
B	more	less	more
C	no change	more	no change
D	more	more	no change

© UCLES 2012

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



What is the firm's objective if it produces output OX?

A to achieve normal profit

B to maximise profit

C to maximise total revenue

D to minimise average cost

10 The table shows a firm's total costs corresponding to different levels of output.

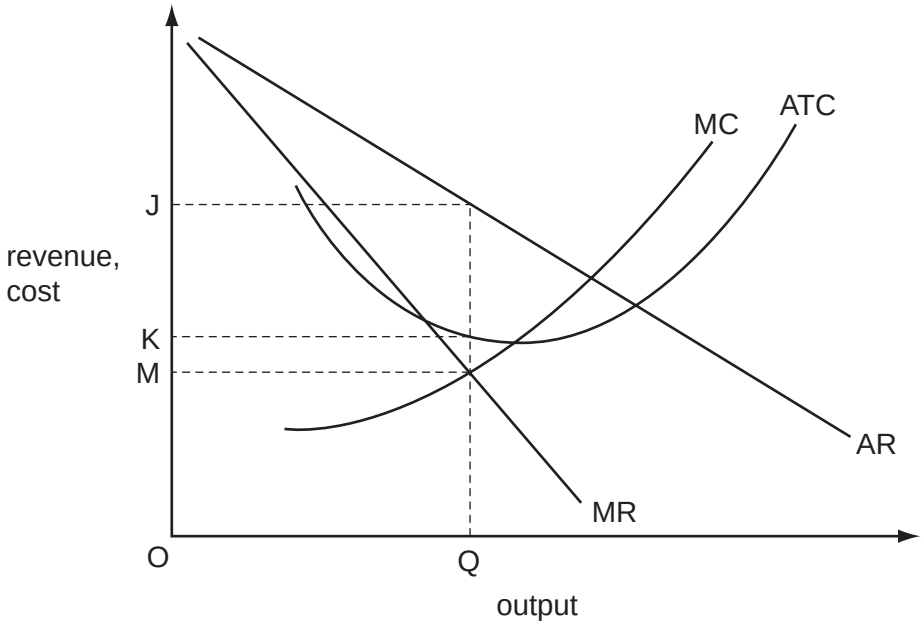
units of output	1	2	3	4	5	6	7	8
total cost ($)	8	14	18	22	28	36	46	58

If the market price is $8, within which range of output would a profit maximising firm in a perfectly competitive industry produce in the short run?

A 1 - 2 units **B** 3 - 4 units **C** 5 - 6 units **D** 7 - 8 units

© UCLES 2012

11 The diagram shows the cost and revenue curves of a profit-maximising monopolist.



What measures the total monopoly profit made by the firm?

A JM **B** JK **C** JM × OQ **D** JK × OQ

12 Some of the firms in an industry agree to set the same price. What might threaten the continuation of the agreement?

A differences in cost structures between firms

B homogeneity of the product

C the inclusion of the dominant firm in the industry

D significant barriers to entry into the industry

13 What does **not** pose a threat to the achievement of allocative efficiency?

A imperfect information on the part of consumers

B income inequalities

C the existence of externalities

D the presence of monopolistic elements

© UCLES 2012

14 At present, a monopolist is required by the industry regulator to charge a price equal to marginal cost.

The table summarises the consequences if the firm were allowed instead to maximise its profits.

	$million
increase in monopoly profits	5
loss of consumer surplus	8

What would be the resulting deadweight loss?

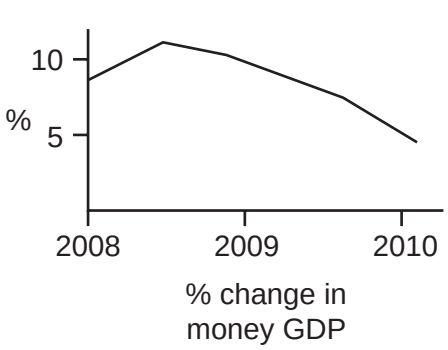
A $3 million **B** $5 million **C** $8 million **D** $13 million

15 The government introduces a congestion charge on motorists who drive their vehicles within a designated urban zone.

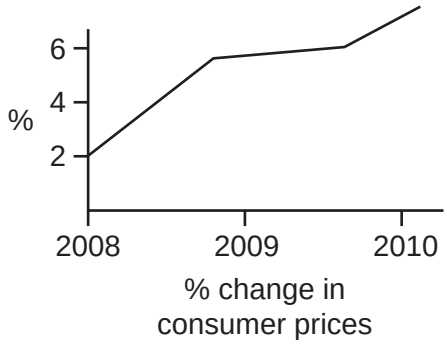
What will be the impact on the overall economic welfare of those who continue to use their cars and on those who switch to travelling by bus?

	impact on those who continue to use their cars	impact on those who switch to buses
A	loss	uncertain
B	loss	loss
C	uncertain	loss
D	uncertain	uncertain

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



% change in money GDP



% change in consumer prices

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.

17 The table shows data on a country's gross domestic product (GDP) at market prices and on domestic spending.

	year 1 ($m)	year 2 ($m)	year 3 ($m)
GDP at market prices	630	650	680
private consumption	460	470	480
government consumption	140	160	170
gross investment	20	30	50

In which of these years will the country be faced with a balance of trade deficit?

	year 1	year 2	year 3
A	no	no	yes
B	yes	yes	no
C	no	yes	yes
D	yes	no	no

18 Which row correctly identifies net leakages from the circular flow of income?

	trade surplus (exports - imports)	government budget deficit (government spending - taxes)	private sector surplus (saving - investment)
A	✓	✓	✗
B	✓	✗	✗
C	✗	✓	✓
D	✗	✗	✓

19 According to monetarist theory, which policy objectives are in conflict in the short run, but **not** in the long run?

A economic growth and full employment

B economic growth and price stability

C price stability and equilibrium in the balance of payments

D price stability and full employment

20 Let C = consumption, I = investment, X = exports, M = imports, Y = national income in an economy with no government sector.

If C = 20 + 0.9Y, I = 60, X = 120 and M = 100, what will be the equilibrium level of Y?

A 100 **B** 180 **C** 1000 **D** 2000

© UCLES 2012

21 Assuming a constant income velocity of circulation of money, if real output grows by 4 %, and the money supply grows by 3 %, what will be the approximate change in the price level?

A –1 % **B** +1 % **C** +3 % **D** +7 %

22 During a recession a government's expenditure exceeds its tax revenue. Which policy might prevent upward pressure on interest rates?

A privatisation of government owned enterprises

B purchases of government bonds by the country's central bank

C sales of foreign currency from the official reserves

D sales of government bonds to the general public

23 An economy's GDP per capita grows over a certain period of time, but its development when measured by the Human Development Index remains unchanged.

What could explain the difference?

A a decline in life expectancy

B an increased crime rate

C increased pollution

D shorter working hours

24 How can cyclical growth, as opposed to long-run economic growth, be shown on a diagram?

A an inward shift in a production possibility curve

B an outward shift in a production possibility curve

C a movement from a point inside a production possibility curve to a point on the curve

D a movement from a point outside a production possibility curve to a point on the curve

25 In the long run, productive potential in an economy grows at an average rate of 3 % per year. In a particular year actual growth is zero because of a fall in domestic consumption.

What is likely to occur?

A an increase in unemployment

B an increase in the rate of inflation

C an increase in the trade deficit

D a reduction in the government budget deficit

© UCLES 2012

26 A developing country's level of debt rises.

In which circumstance is this **least** likely to be a problem?

A Global aggregate demand is falling.

B Global real interest rates rise.

C The country's Gross Domestic Product rises by less than its debt.

D The debt finances capital investment.

27 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

28 What is the best measure of the economic cost of an increase in unemployment?

A the loss of potential exports

B the money value of the additional social security benefits paid

C the goods and services the unemployed workers could have produced

D the additional social security benefits paid plus the loss of tax revenue from newly redundant workers

29 What is the most effective policy a government could introduce to reduce frictional unemployment?

A cut welfare spending on benefits

B improve information about job vacancies

C reduce tax rates

D raise interest rates

30 What is likely to be the effect on developing economies of an increase in inward foreign direct investment?

A an acceleration of technology transfer

B an increase in the burden of debt

C an increase in visible trade deficits

D a slowdown of rural-urban migration

© UCLES 2012

BLANK PAGE

BLANK PAGE

Permission to reproduce items where third-party owned material protected by copyright is included has been sought and cleared where possible. Every reasonable effort has been made by the publisher (UCLES) to trace copyright holders, but if any items requiring clearance have unwittingly been included, the publisher will be pleased to make amends at the earliest possible opportunity.

University of Cambridge International Examinations is part of the Cambridge Assessment Group. Cambridge Assessment is the brand name of University of Cambridge Local Examinations Syndicate (UCLES), which is itself a department of the University of Cambridge.