UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Level

ECONOMICS **9708/31**

Paper 3 Multiple Choice (Supplement) **October/November 2013**

1 hour

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

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READ THESE INSTRUCTIONS FIRST

Write in soft pencil.
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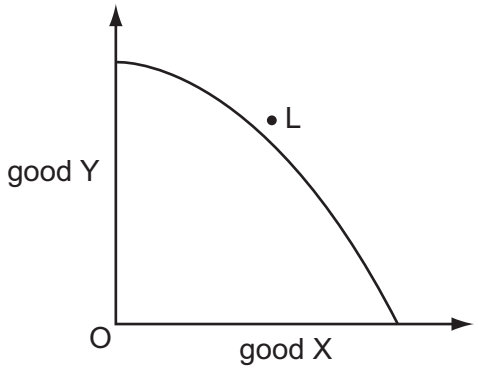
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1 The diagram shows the production possibility curve for an economy.



What might make it possible for consumers in this economy to consume the combination of goods X and Y indicated by the point L?

A a reduction in unemployment

B the achievement of productive efficiency

C the elimination of a monopoly in the production of good X

D trade with other economies

2 The table shows the marginal utility derived by a consumer who devotes the whole of his weekly income of $42 to two goods X and Y. Good X costs $3 per unit and Good Y $6 per unit.

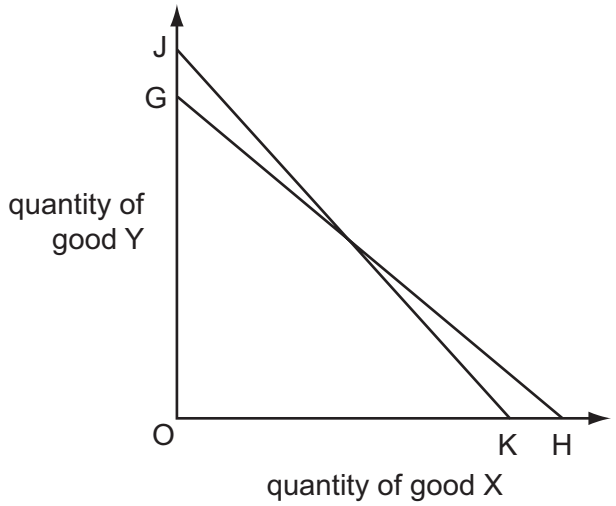
unit	marginal utility of X (units)	marginal utility of Y (units)
1	12	34
2	11	30
3	10	26
4	9	22
5	8	18
6	7	14
7	6	10
8	5	6

In order to maximise his utility, which quantities of X and Y should the consumer purchase?

	X	Y
A	2	6
B	4	5
C	6	4
D	8	3

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



Which statement must be correct?

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

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

C Good Y has become relatively more expensive.

D The price of good X has increased.

4 A firm in an initial profit maximising position employs two factors, X and Y, to produce a good which is sold for $3.

Factor prices and productivities change. The new values are given in the table.

factor	marginal physical product	price ($)
X	2	4
Y	5	20

What should the firm employ to achieve equilibrium?

A less of both X and Y

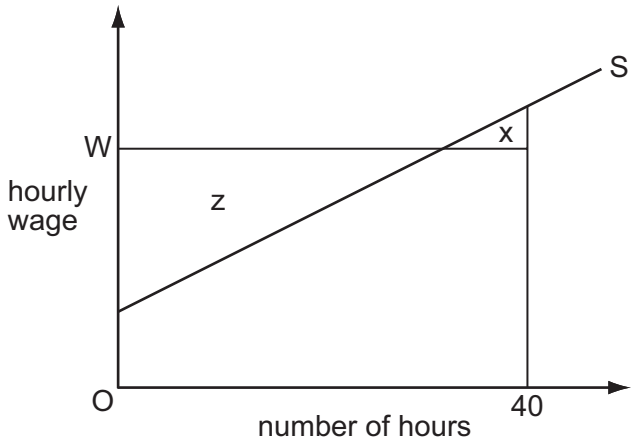
B more of X and less of Y

C more of Y and less of X

D more of both X and Y

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5 The diagram shows an individual worker's supply curve of labour.

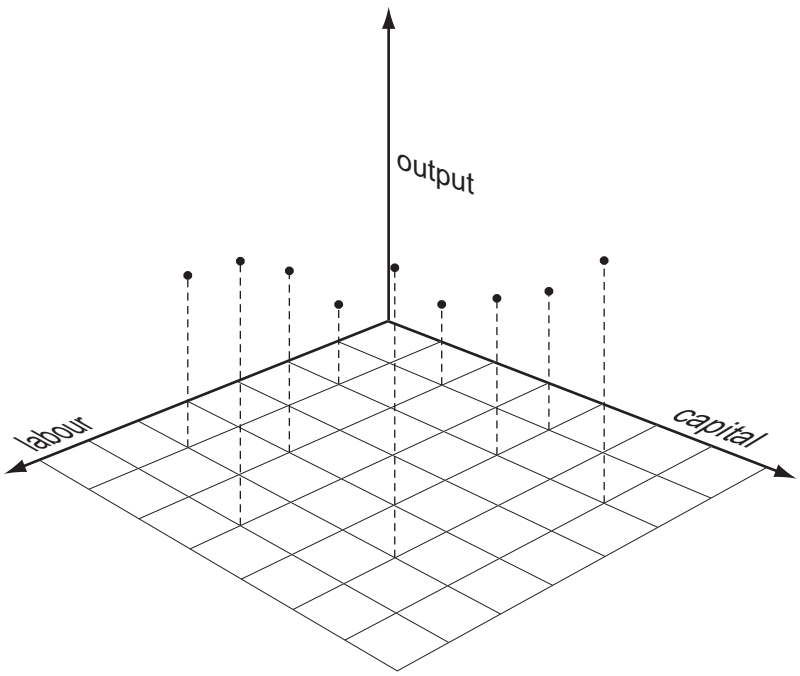


The hourly wage is OW and the worker is compelled to work a 40-hour week.

Which area measures the worker's economic rent?

A x **B** z **C** z – x **D** x + z

6 In the diagram the heights of the vertical broken lines show the levels of output a firm can produce with different combinations of labour and capital.



What is the relationship between factor inputs and the level of output shown in the diagram called?

A a long-run cost function

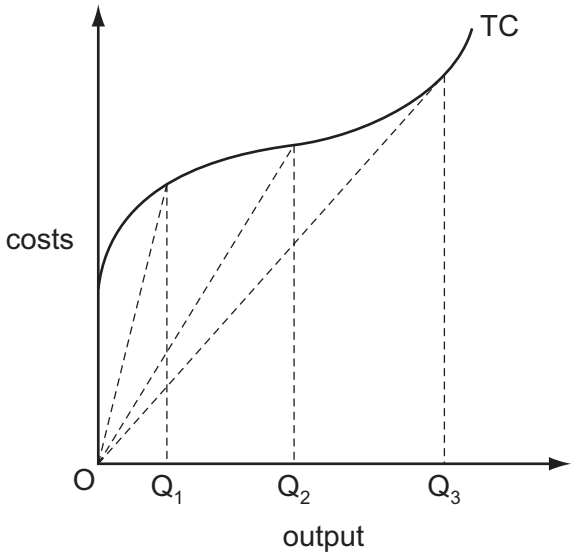
B a long-run production function

C a short-run cost function

D a short-run production function

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7 In the diagram, TC is a firm's short-run total cost curve.



Which statement is correct?

A Average total cost is minimised at output OQ_2.

B Average variable cost is minimised at output OQ_1.

C Average variable cost is minimised at output OQ_3.

D Marginal cost is minimised at output OQ_2.

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

	$(000)
wages and salaries	150
opportunity cost of owner's time	40
materials	80
rent of buildings	30
marketing fees	20
interest on bank loans	25
interest forgone on finance provided by owner	15
depreciation of equipment	20

What would an accountant calculate to be the total cost incurred by the firm?

A $275 000 **B** $305 000 **C** $325 000 **D** $340 000

9 Firms can grow internally or externally.

Which strategy is an example of a commercial bank growing internally?

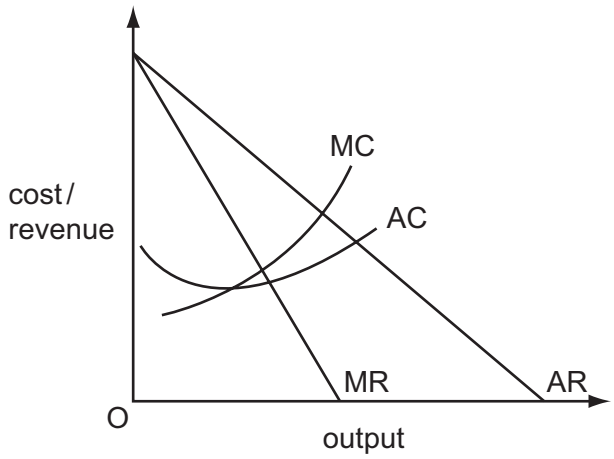
A the bank cutting its costs by rationalising its structure

B the bank merging with another commercial bank

C the bank opening new branches

D the bank taking over an insurance company

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



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

How will this affect the net economic welfare of the following groups in the short run?

	customers	workers
A	fall	rise
B	fall	fall
C	rise	rise
D	rise	fall

11 A market structure in which a small number of firms face competition from potential entrants.

What does this describe?

A a contestable market

B a monopoly

C perfect oligopoly

D monopolistic competition

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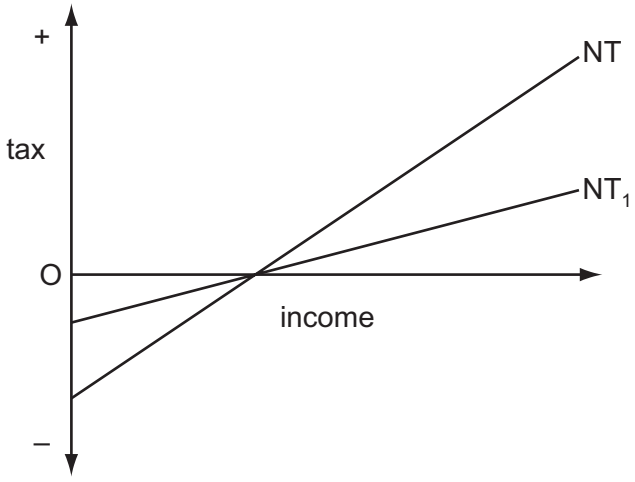
12 At its current level of output, a monopolist is on the price-inelastic part of its demand curve.

What will be the effect of an increase in the price charged by the firm on its output and on its profits?

	output	profits
A	decrease	increase
B	decrease	uncertain
C	increase	increase
D	increase	uncertain

13 A country has a negative tax income regime.

The curve NT in the diagram shows the country's initial tax schedule.



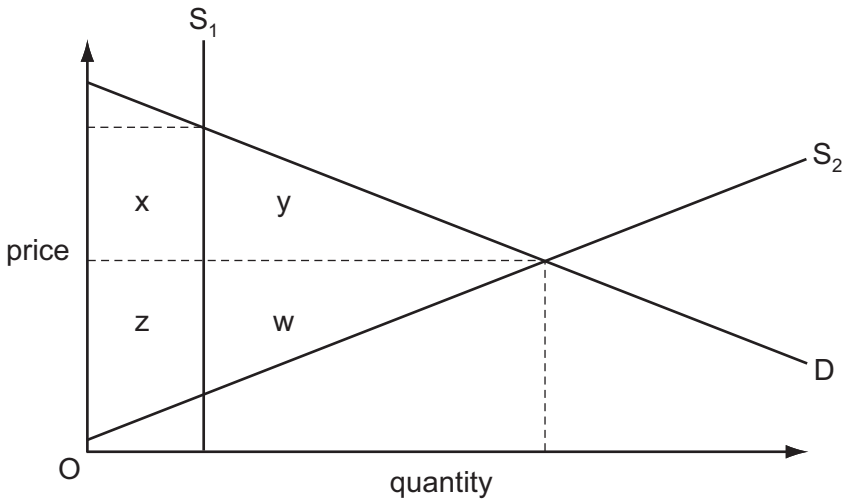
A change in the tax rate causes the schedule to shift to NT_1.

How will this affect work incentives and the after-tax distribution of income?

	work incentives	distribution of income
A	strengthen	less equal
B	strengthen	more equal
C	weaken	less equal
D	weaken	more equal

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14 The diagram shows the market for new cars. Currently the quantity supplied is fixed by the government at S_1.



If the market was deregulated the supply curve would be S_2.

Which area measures the net welfare gain of removing the restriction on the quantity supplied?

A w + y **B** x + y **C** z + w **D** z + x + y + w

15 What are the losses in economic efficiency that are likely to result from a policy of income redistribution from the rich to the poor?

	disincentive effects	distortion of individual choices between work and leisure	administrative costs of the redistribution policy
A	yes	yes	no
B	yes	yes	yes
C	no	no	no
D	no	no	yes

16 A government regulates the price charged by a monopolist.

In which circumstance will such intervention improve economic efficiency?

A The government sets the price where average revenue equals marginal cost.

B The government sets the price where marginal cost is below average cost.

C The intervention results in an increase in producer surplus.

D The intervention results in predatory pricing.

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17 How are the weights applied to the different indicators used to construct the United Nations' Human Development Index determined?

A by the amount a country falls short of the maximum value of each indicator

B by the proportion of GNP a country devotes to promoting each of the indicators

C by the relative importance attached to the different indicators by the United Nations

D by the relative size of each country's population

18 Which assets are included within the definition of broad money but **not** within the definition of narrow money?

A commercial banks' deposits at the central bank

B commercial banks' till money

C notes and coins in circulation

D private sector savings (deposit) accounts

19 When national income equals $30 000 million and government spending equals $15 000 million, an economy is in equilibrium below full employment. Out of every increase of $100 in national income, $10 is taken in taxes, $25 is spent on imports and $15 is saved.

To raise national income to the full employment level of $50 000 million, to which level will the government need to raise its own spending?

A $20 000 million

B $25 000 million

C $30 000 million

D $35 000 million

20 In a banking system, all banks maintain 20% of deposits as cash.

One bank receives a new cash deposit of $200. Subsequent net withdrawals of cash from the banking system are zero.

What will be the resulting increase in bank loans and the total increase in bank deposits?

	increase in bank loans $	total increase in deposits $
A	160	200
B	160	360
C	800	1000
D	1000	1000

21 A government finances an increase in spending by selling government securities to foreign residents.

What will be the immediate effect on the money supply and on the foreign exchange reserves?

	money supply	foreign exchange reserves
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

22 What will cause a fall in the quantity of money demanded?

A a rise in interest rates

B a rise in national income

C a rise in the price level

D a rise in wealth

23 The table gives the growth rate of nominal GDP, the population growth rate and the rate of inflation in one year for four countries.

Which country had the greatest growth in average living standards?

	nominal GDP growth rate %	population growth rate %	rate of inflation %
A	6	1	3
B	8	2	4
C	10	3	4
D	15	3	10

24 When might an increase in a government budget deficit be considered the most appropriate policy?

A when inflation is high

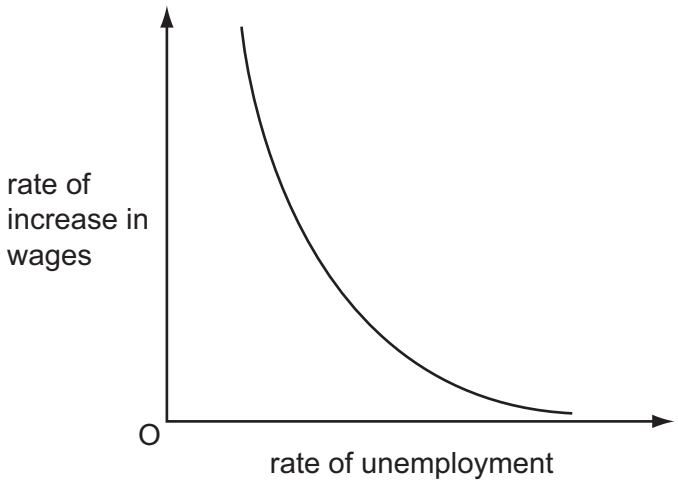
B when there is a balance of payments trade deficit

C when there is high cyclical unemployment

D when there is high structural unemployment

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



What would be likely to cause the curve in the diagram to shift downwards and to the left?

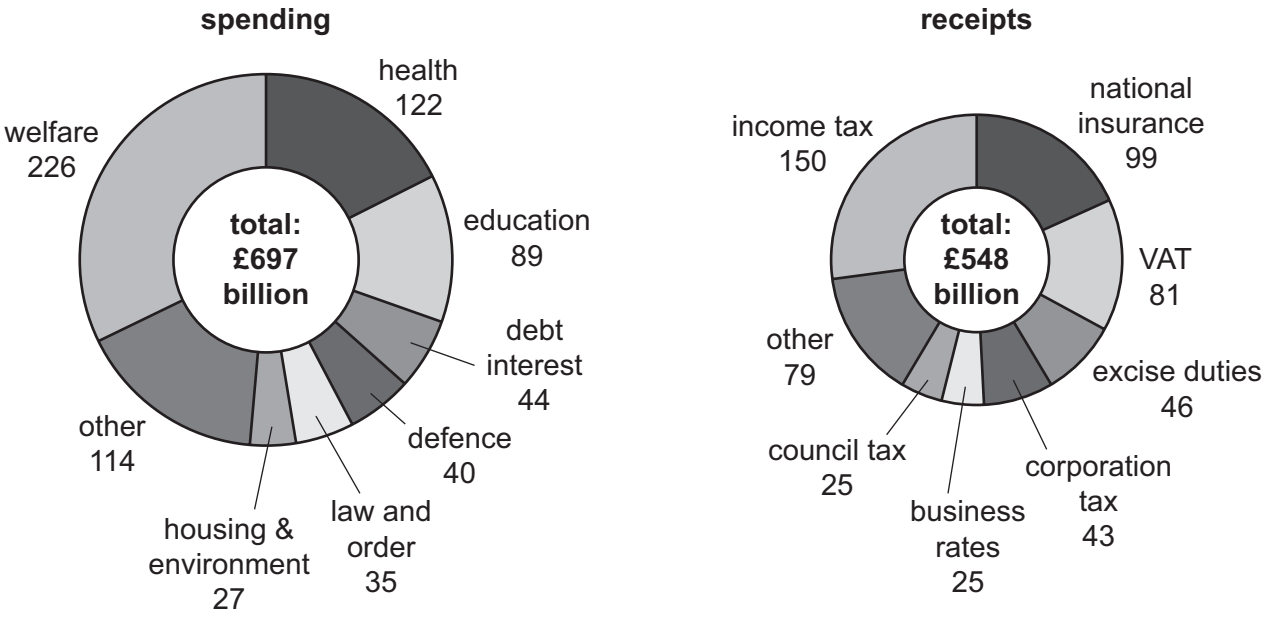
A an increase in regional differences in unemployment rates

B an increase in the proportion of the workforce belonging to trade unions

C an increase in the unemployment rate

D the expectation of a lower rate of inflation

26 The diagram shows details of the British Government's estimated spending and receipts for 2010–2011. All figures in UK £bn.



What can be concluded from the diagram?

	effect of largest spending item on income distribution	type of largest receipt item	overall budget balance
A	less equitable	indirect tax	deficit
B	less equitable	indirect tax	surplus
C	more equitable	direct tax	deficit
D	more equitable	direct tax	surplus

27 What do governments need to do to allow automatic stabilisers to work?

A adjust taxes in order to achieve a balanced budget

B keep welfare benefit rates and tax rates unchanged

C lower both taxes and government expenditure in a slump

D lower taxes in a boom and raise taxes in a slump

28 What is **not** a supply-side policy measure?

A deregulating industry to encourage more competitive markets

B linking unemployment benefits to the obligation to look for work

C tackling cyclical unemployment by lowering interest rates

D tackling structural unemployment by giving grants for labour mobility

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29 A country has a fixed exchange rate.

Which combination of problems would be most likely to cause the country's government to reduce taxation and lower interest rates?

A demand inflation and a balance of payments current account deficit

B demand inflation and a low level of investments

C high unemployment and a balance of payments current account deficit

D high unemployment and a low level of investment

30 An economy has a low level of unemployment. The government increases its expenditure.

Which method of financing the additional expenditure is most likely to cause inflation?

A an increase in borrowing from the Central Bank

B an increase in income taxes

C an increase in sales of state assets to the non-bank private sector

D an issue of bonds to the non-bank private sector

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ECONOMICS **9708/32**

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1 What is the purpose of trying to achieve economic efficiency?

A to ensure that economic decisions are made equitably

B to ensure that firms are internationally competitive

C to ensure that firms maximise their profit levels

D to ensure that the economy does not waste scarce resources

2 The table shows the total utility that an individual derives from consuming different quantities of a good.

quantity of good (units)	total utility (units)
1	24
2	45
3	63
4	78
5	90
6	99

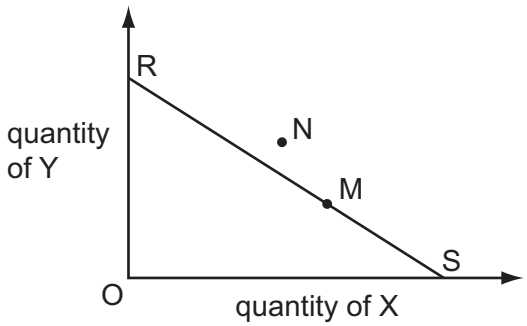
The individual's marginal utility of money is $1 = 2 units of utility.

What is the maximum quantity of the good that the individual will buy when its price is $6?

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

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3 The line RS in the diagram shows the different combinations of goods X and Y that a consumer can afford with her present income.



The consumer's original equilibrium is at M.

What could explain a subsequent change in her equilibrium position to N?

A a change in her tastes

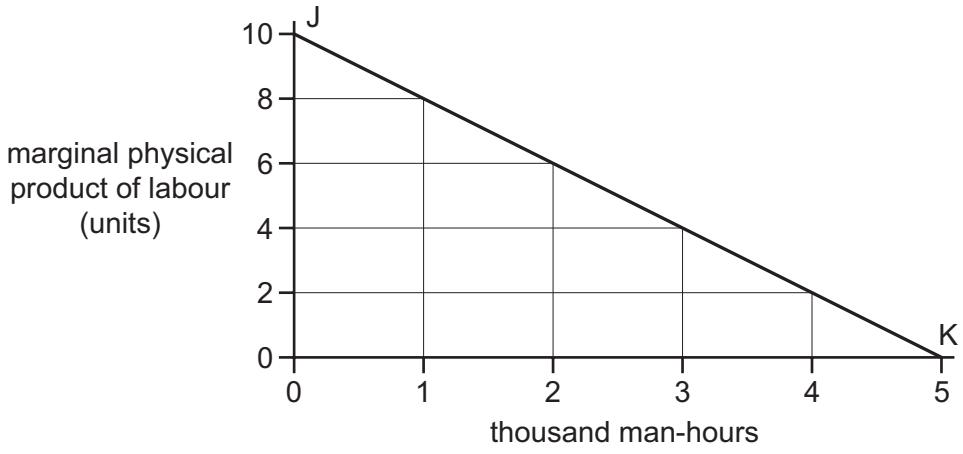
B an increase in the price of X and a fall in the price of Y

C an increase in the price of X and a smaller percentage increase in the price of Y

D equal percentage increases in her income and in both prices

4 A firm operates under perfect competition in both product and factor markets with labour as the only variable factor input.

In the diagram, the line JK shows the relationship between the marginal physical product of labour and the man hours hired.

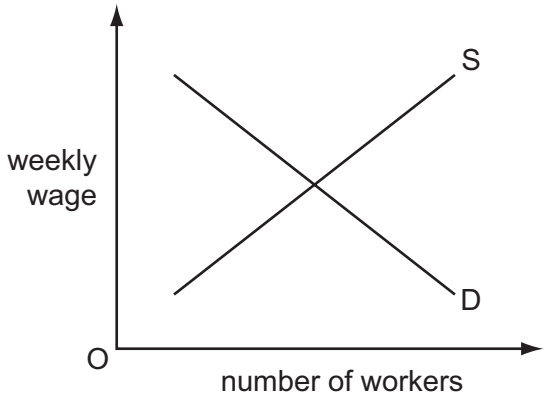


The price of the product is $1.60.

What will be the number of man-hours hired by the firm if the hourly wage is $6.40?

A 1000 **B** 2000 **C** 3000 **D** 4000

5 The diagram shows the initial position of a labour market.

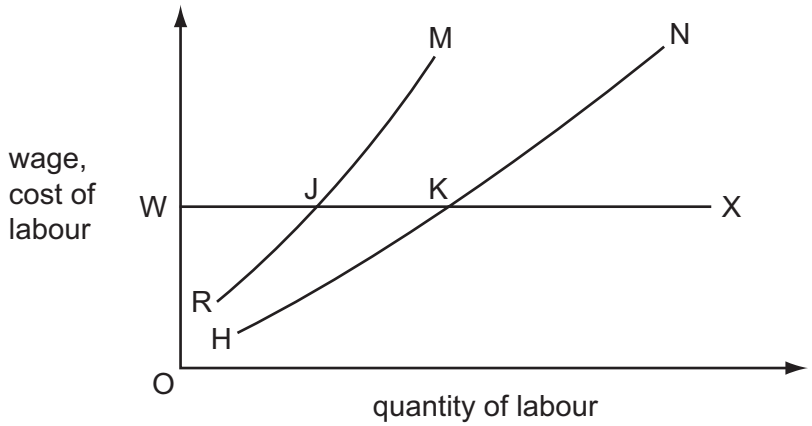


The government increases the number of statutory paid holidays to which workers are entitled from 10 days a year to 15 days a year.

How will this affect the supply and demand curves in the diagram?

	employers' demand curve	workers' supply curve
A	shifts to left	shifts to right
B	shifts to left	shifts to left
C	shifts to right	shifts to right
D	shifts to right	shifts to left

6 In the diagram, HN is the initial supply of labour curve faced by a firm, and RM is its initial marginal cost of labour curve.



What will be the firm's new labour supply curve, if the workers join a trade union and achieve a union negotiated wage, OW?

A RJX **B** HKX **C** WJM **D** WKN

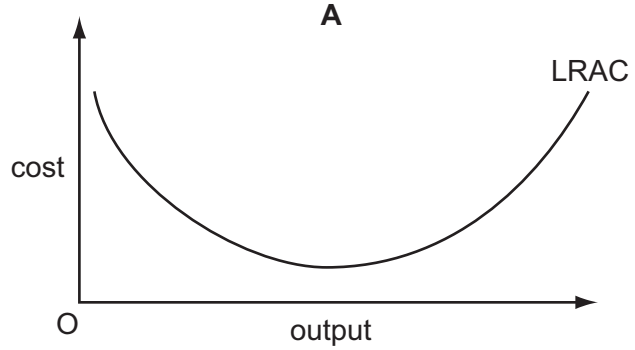
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7 The table shows a firm's long-run total cost schedule.

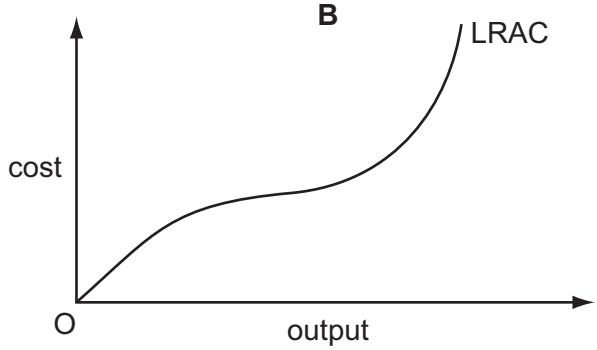
output of goods per month	total cost (US$)
100	100
200	120
300	150
400	200

Which graph shows the shape of the firm's long-run average cost curve?

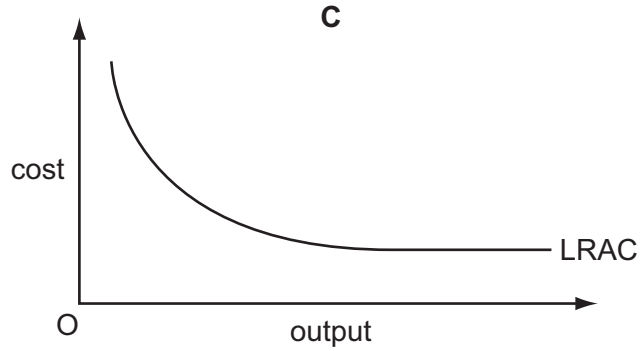
A



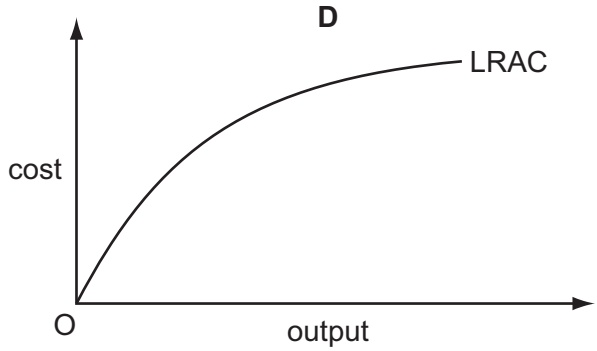
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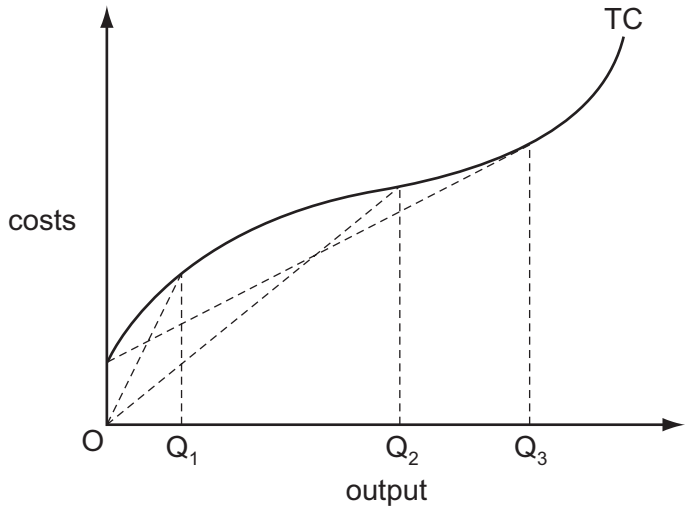
C



D



8 In the diagram, TC is a firm's short-run total cost curve.



Which statement is correct?

A Average total cost is minimised at output OQ_2.

B Average variable cost is minimised at output OQ_1.

C Average variable cost is minimised at output OQ_3.

D Marginal cost is minimised at output OQ_1.

9 What is an internal diseconomy of scale that often arises as a firm becomes larger?

A a more complex decision-making process

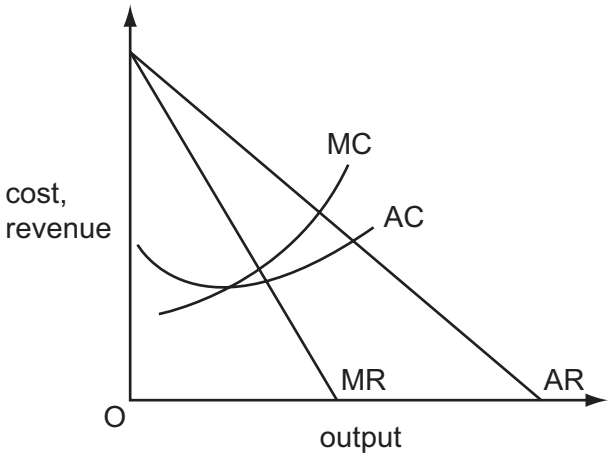
B an increase in the cost of raising finance for investment

C an increase in traffic congestion

D upward pressure on wages in the local labour market

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



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

Which groups are likely to be winners and losers as a result of this change?

	winners	losers
A	customers	shareholders
B	managers	customers
C	workers	managers
D	shareholders	workers

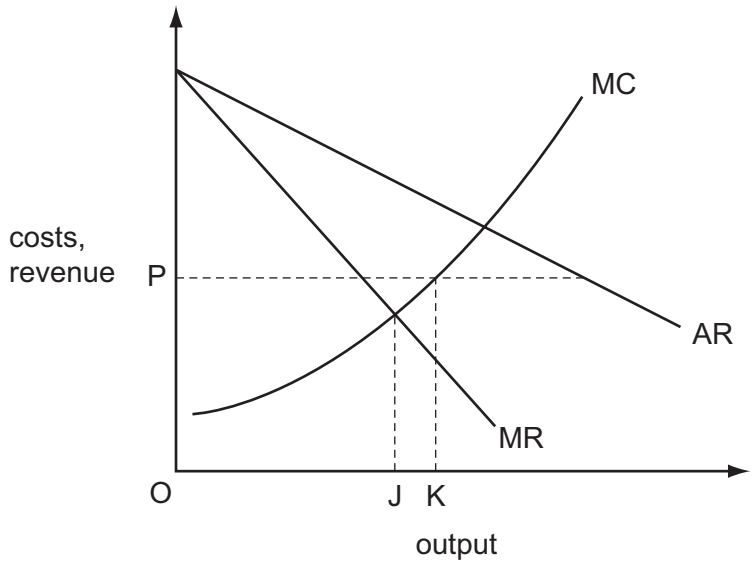
11 The table shows some of the assumptions of perfect competition and monopolistic competition.

Which pairing is correct?

	perfect competition	monopolistic competition
A	barriers to entry	small number of firms
B	differentiated products	large number of firms
C	freedom of entry and exit	barriers to entry
D	large number of firms	differentiated products

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



What would cause the firm to increase its output from OJ to OK?

A The government fixes the price at OP.

B The government requires the firm to charge a price equal to marginal cost.

C The government imposes an indirect tax on the firm's product.

D The firm is allowed to earn only a normal profit.

13 What makes it most likely that a firm's profits will be volatile and subject to substantial fluctuations?

A Fixed costs are a high percentage of total costs.

B It produces a diversified range of products.

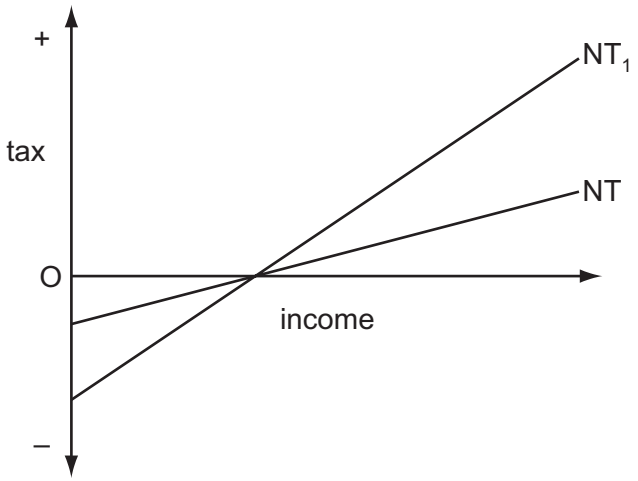
C It produces basic consumer products.

D It sells its product in a number of different markets.

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14 A country has a negative income tax.

The curve NT in the diagram shows the country's initial tax schedule.



A change in the tax rate causes the schedule to shift to NT_1.

How will this affect work incentives and the after-tax distribution of income?

	work incentives	distribution of income
A	strengthen	more equal
B	strengthen	less equal
C	weaken	less equal
D	weaken	more equal

15 What is most likely to contribute to households finding themselves in a poverty trap?

A means-tested benefits

B progressive taxation

C regressive taxation

D universal benefits

16 The firms in a perfectly competitive industry combine to form a monopoly.

What would prevent a deadweight welfare loss resulting?

A The government imposes an indirect tax on the monopolist's product.

B The government requires the monopolist to charge a price equal to average cost.

C The monopolist adopts marginal cost pricing.

D The monopolist charges the same price to all consumers.

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17 What might cause the growth of measured GNP to overstate the 'true' rate of economic growth in an economy?

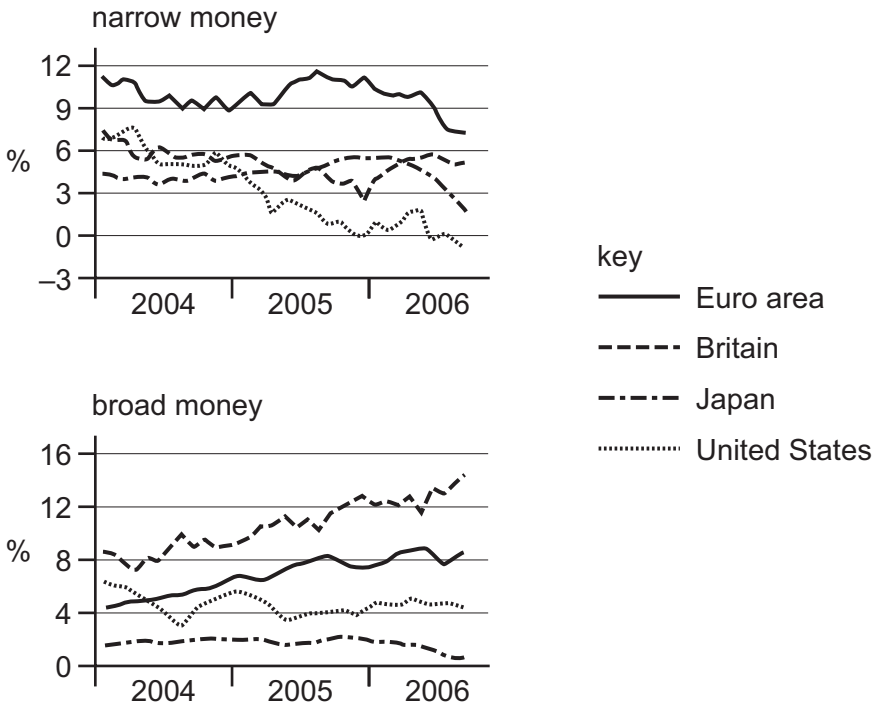
A People move from unpaid housework to paid employment.

B The exchange rate is overvalued according to purchasing power parity.

C There is a reduction in environmental pollution.

D There is a reduction in the rate of investment in physical capital.

18 The diagram shows changes in broad and narrow measures of money supply between 2004 and 2006.



Which is the only area to have experienced a contraction in either one of its measures of money supply?

A Euro area

B Britain

C Japan

D United States

19 Which assertion could be described as monetarist rather than Keynesian?

A The interest elasticity of investment expenditure is close to zero.

B The money supply is the main determinant of aggregate monetary expenditure.

C The money supply is the main determinant of output in the long-run.

D The velocity of circulation of money is unstable over time.

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20 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 m and increases taxation by $10 million.

What will be the impact on aggregate demand?

A It will be unchanged.

B It will increase by less than $10 million.

C It will increase by $10 million.

D It will decrease by $10 million.

21 According to loanable funds theory, what will cause the rate of interest to rise?

A a decrease in the demand for money

B an increase in the level of savings

C an increase in the rate of investment

D an increase in the supply of money

22 What is most likely to contribute to high long-term growth rates of GNP per head?

A government imposition of maximum prices for particular goods

B high rates of trade union membership amongst the labour force

C high ratios of saving to GNP

D restrictions on inward foreign investment

23 A country experiences cyclical unemployment due to a decrease in domestic spending.

If the government takes no action in response, what will be a likely consequence?

A an increase in the current account deficit on the balance of payments

B an increase in the government's budget deficit

C an increase in the rate of inflation

D an increase in the volume of investment

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24 What is a possible combination of a cost and a benefit of rising levels of unemployment?

	cost	benefit
A	a deterioration in human capital	an increase in capital expenditure
B	an increase in import expenditure	a decrease in government tax revenue
C	an increase in the rate of economic growth	a more responsive workforce
D	an irretrievable loss of output	a reduction in inflationary pressure

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 Which combination indicates that a country is operating a 'dirty float'?

	nominal exchange rate	foreign currency reserves
A	depreciates by 20%	decrease by $1 billion
B	depreciates by 20%	unchanged
C	unchanged	decrease by $1 billion
D	unchanged	unchanged

27 What is a reflationary fiscal measure?

A reducing interest rates

B increasing the money supply

C increasing taxes

D increasing government spending

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28 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 value added tax
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

29 A government aims to achieve steady and stable growth, in line with the economy's long-run increase in productivity.

If this objective is achieved, how is this likely to affect average living standards and the level of unemployment?

	average living standards	level of unemployment
A	constant	falling
B	falling	unchanged
C	rising	rising
D	rising	unchanged

30 During year 1, a government announces a temporary one-year reduction in the level of indirect taxation balanced by an equivalent temporary one-year increase in direct taxation.

What is most likely to be the impact on household saving in year 1 and in year 2?

	impact on household saving in year 1	impact on household saving in year 2
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 2013**

1 hour

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

* 5 1 4 9 7 0 7 2 9 1 *

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.
DO **NOT** WRITE IN ANY BARCODES.

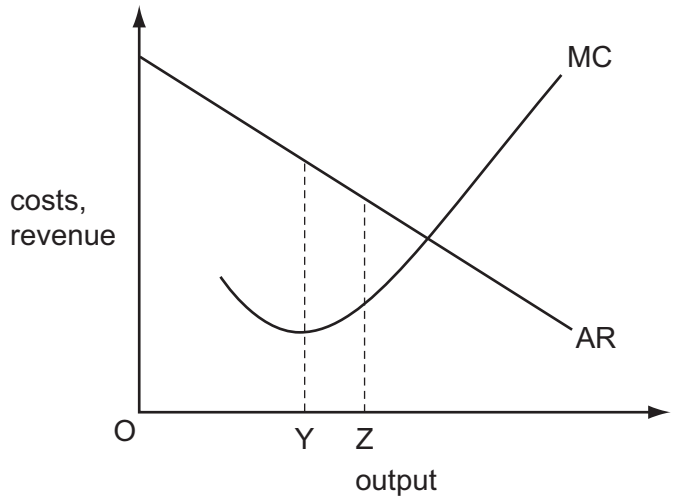
There are **thirty** questions on this paper. Answer **all** questions. For each question there are four possible answers **A**, **B**, **C** and **D**.
Choose the **one** you consider correct and record your choice in **soft pencil** on the separate Answer Sheet.

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.

IB13 11_9708_33/2RP
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1 In the diagram, a firm increases its output from OY to OZ.



Which statement about the effect on economic efficiency is correct?

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

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

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

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

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2 The table shows the marginal utility derived by a consumer who devotes the whole of his weekly income of $42 to two goods X and Y. The price of Good X is $3 and the price of Good Y is $6.

unit	marginal utility of X (units)	marginal utility of Y (units)
1	13	22
2	12	20
3	11	18
4	10	16
5	9	14
6	8	12
7	7	10
8	6	8

In order to maximise his utility, which quantities of X and Y should the consumer buy?

	X	Y
A	2	6
B	4	5
C	6	4
D	8	3

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

A the consumer's money income

B the consumer's preferences

C the consumer's real income

D the prices of other goods

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4 The table shows the current position of a firm in a perfectly competitive industry.

	factor X	factor Y
marginal physical product	2	4
factor price	$5.00	$10.00

If the firm sells its product for $1 and aims to maximise profits, what should it employ?

A more of both X and Y

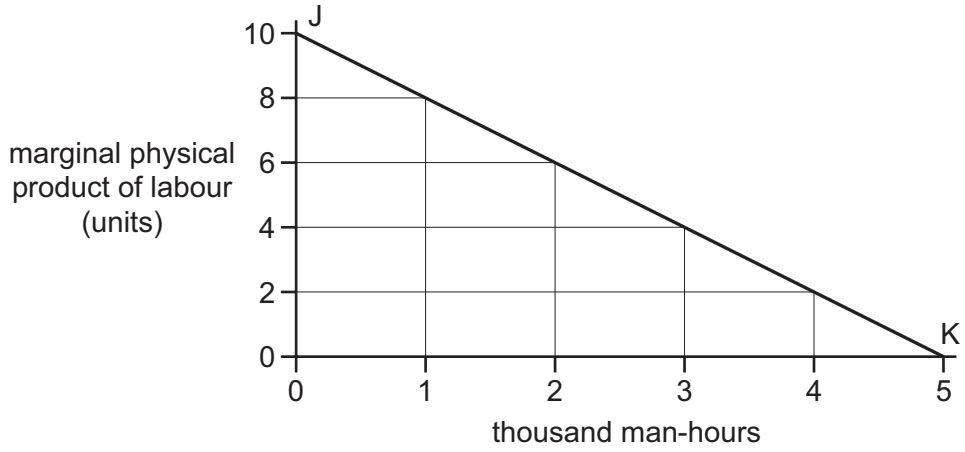
B more of X and less of Y

C more of Y and less of X

D less of both X and Y

5 A firm operates under perfect competition in both product and factor markets with labour as the only variable factor input.

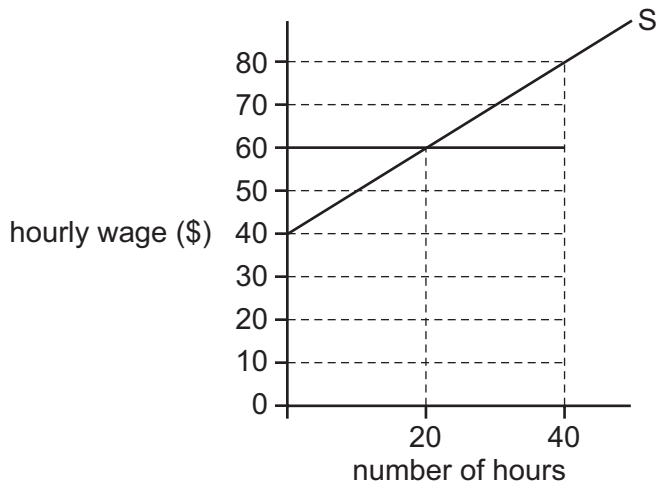
In the diagram, the line JK shows the relationship between the marginal physical product of labour and the man hours hired.



How many man-hours will the firm hire if the price of the product is $1.60 and the hourly wage is $3.20?

A 1000 **B** 2000 **C** 3000 **D** 4000

6 The diagram shows an individual's supply of labour curve.



The hourly wage is $60 and the worker is compelled to work a 40-hour week.

What is the value of the worker's economic rent?

A $0 **B** $200 **C** $400 **D** $2400

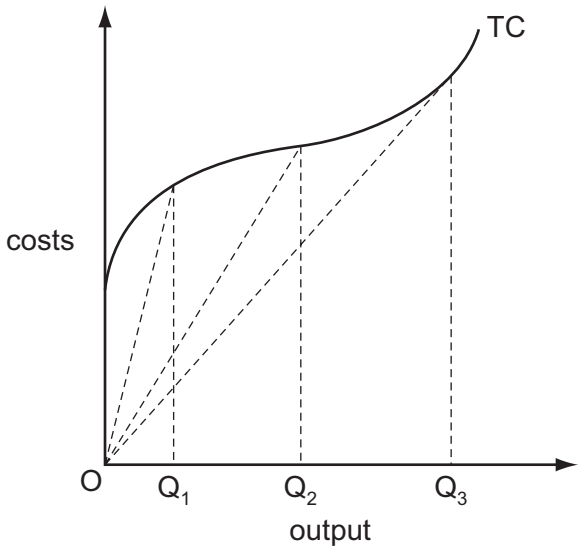
7 An economist calculates that a firm has incurred the following costs over the course of a year.

	$(000)
wages and salaries	150
opportunity cost of owner's time	40
materials	100
rent of building	30
marketing fees	20
interest on bank loans	25
interest forgone on finance provided by owner	30
depreciation of equipment	35

What would an accountant calculate to be the total cost incurred by the firm?

A $360 000 **B** $390 000 **C** $400 000 **D** $430 000

8 In the diagram, TC is a firm's short-run total cost curve.



Which statement is correct?

A Average total cost is minimised at output OQ_3.

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_1.

9 The table shows the inputs of the two factors of production, capital and labour, needed to produce varying levels of output.

output	capital	labour
100	5	10
200	8	16
300	12	24
400	20	40
500	30	60

Over which range of output do constant returns to scale occur?

A 100 to 200 **B** 200 to 300 **C** 300 to 400 **D** 400 to 500

10 What is likely to make it more difficult for a small firm to survive?

A increased preference on the part of consumers for distinctive non-standardised products

B reductions in the rate of interest charged by commercial banks

C the absence of effective barriers to the entry of potential competitors

D the existence of decreasing returns to scale

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11 The demand for a firm's product is perfectly elastic.

What will be the effect on the firm's revenue if it increases its price by 5%?

A Its revenue will be unchanged.

B Its revenue will decrease by 5%.

C Its revenue will fall to zero.

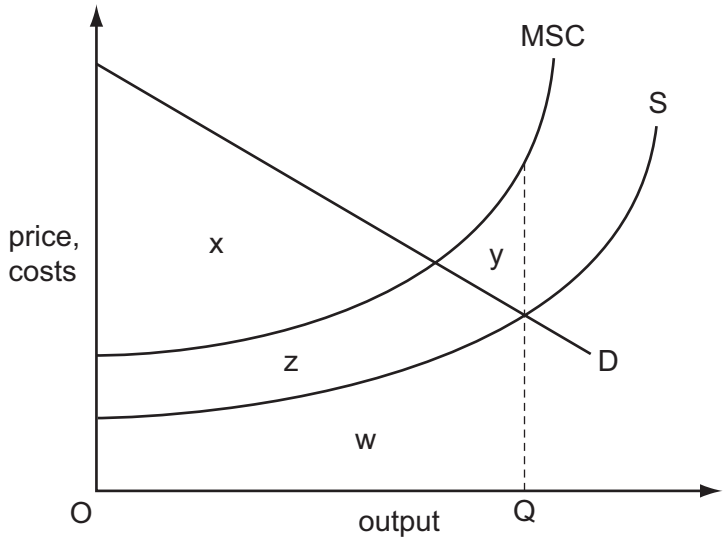
D Its revenue will increase by 5%.

12 The table shows some of the assumptions of perfect competition and monopolistic competition.

Which pairing is correct?

	perfect competition	monopolistic competition
A	identical products	freedom of entry and exit
B	barriers to entry	differentiated products
C	large number of firms	small number of firms
D	differentiated products	barriers to entry

13 The diagram shows the supply and demand curves of a good, and its marginal social cost of production (MSC).



Which area measures the net benefit to society if output OQ is produced?

A x **B** x + y **C** x + z + w **D** x – y

14 The table compares some of the properties of universal benefits and means tested benefits.

Which pairing is correct?

	universal benefits	means tested benefits
A	greater disincentive effects	targeted at those most in need
B	higher take-up rate	more expensive
C	more expensive	greater disincentive effects
D	targeted at those most in need	higher take-up rate

15 What is most likely to occur when a command economy makes the transition towards becoming a market economy?

A an increase in unemployment in the short run

B a slower response to changes in technology

C a decrease in the production of consumer goods

D a decrease in the productivity of workers

16 Which combination is usually found in developing countries?

A a high birth rate and a dominant primary sector

B capital intensive production and a low rate of saving

C labour intensive production and a declining population

D net inward migration and a low death rate

17 According to monetarist theory, what will be affected in the long run by a change in the money supply?

	the level of output	the price level	the level of unemployment
A	no	no	yes
B	no	yes	no
C	yes	no	yes
D	yes	yes	no

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18 Which correctly identifies leakages from a country's circular flow of income?

	private sector S > I	government sector T > G	trade sector X > M
A	no	no	no
B	no	no	yes
C	yes	yes	no
D	yes	yes	yes

19 The statistics refer to an open economy with a government sector where

C = consumption expenditure

I = investment

G = government expenditure

X = exports

M = imports

Y = national income

In which situation is the economy in disequilibrium?

	C	I	G	X	M	Y
A	400	300	200	250	150	1000
B	500	300	200	250	150	1100
C	600	300	200	250	150	1200
D	800	300	200	250	150	1300

20 In a banking system, all banks maintain 20% of deposits as cash.

One bank receives a new cash deposit of $200. Subsequent net withdrawals of cash from the banking system are zero.

What will be the total increase in deposits within the system?

A $20 **B** $200 **C** $800 **D** $1000

21 A 6% increase in the money supply leads to a 4% increase in the level of money income.

What can be deduced from this?

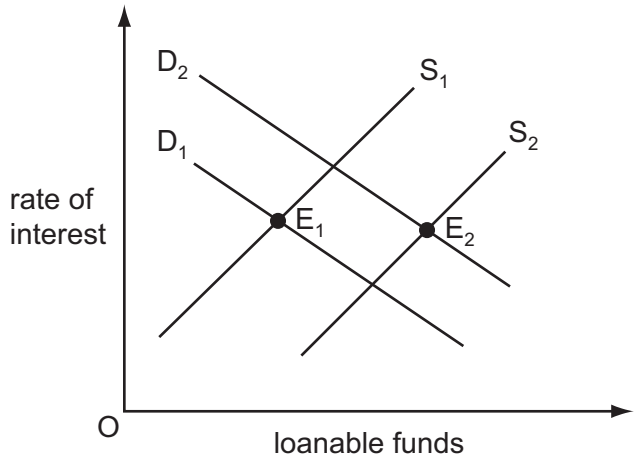
A There has been an increase in interest rates.

B There has been a decrease in the level of output.

C There has been a decrease in the velocity of circulation.

D The price level has increased by 2%.

22 The diagram shows the market for loanable funds.



Which changes could cause the equilibrium to move from E_1 to E_2?

A an increase in the propensity to save and an increase in bank lending

B the discovery of oil reserves and an increase in the propensity to save

C advances in technology and a decrease in bank lending

D a decrease in the propensity to save and the introduction of new products

23 The World Bank publishes statistics on changes in the number of people in the world who live on less than US$1 per day.

What do these statistics measure?

A the change in average living standards

B the extent of poverty

C the level of economic development

D the rate of economic growth

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24 Which of the following are characteristics of most developing economies?

	government debt: GDP ratio	average propensity to save
A	high	high
B	high	low
C	low	high
D	low	low

25 What will result from rising unemployment in an economy?

A a reduction in the government's budget deficit

B inflationary pressure will be reduced

C potential output will fall

D the economy's production possibility curve will move inwards

26 Why is a high ratio of government debt to GDP likely to cause a decline in a country's economic growth?

A Higher taxes to pay the interest charges on the debt will reduce the country's money supply.

B It will cause the growth in actual output to fall behind the country's long-term rate of growth.

C It will increase the cost of borrowing to both the government and the private sector.

D It will weaken the country's competitiveness by increasing unit labour costs.

27 Which policy would be most likely to improve a country's prospects of achieving a higher long-run rate of growth?

A an increase in the government's budget deficit

B an increase in tuition fees charged to university students

C intervention in the foreign exchange market to raise the exchange rate

D the introduction of tax incentives to encourage households to save more

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

A a deterioration in the trade balances of developing economies

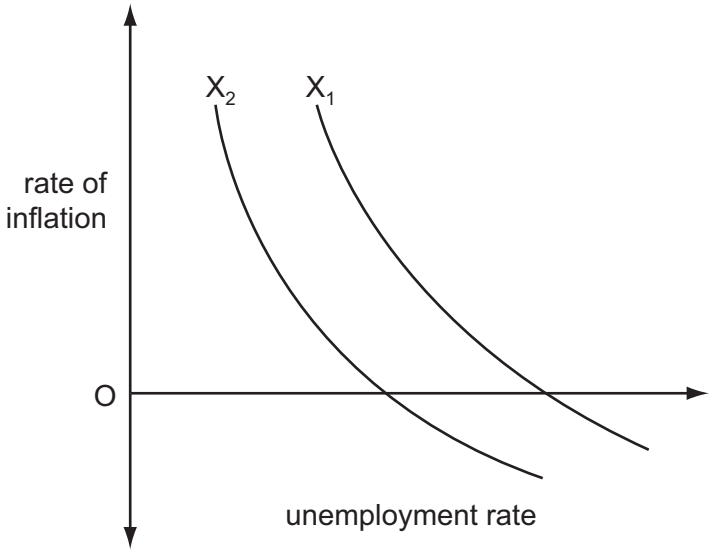
B a reduction in migration to urban areas

C a reduction in the transfer of technology to developing economies

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

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29 In the diagram, the curve X_1 shows an economy's initial trade-off between inflation and unemployment.



What could cause the curve to shift to X_2?

A a decrease in the money supply

B a decrease in the natural rate of unemployment

C an increase in the rate of interest

D the expectation of an increase in the inflation rate

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	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

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