Cambridge International A Level

Cambridge International Examinations
Cambridge International Advanced Level

ECONOMICS **9708/31**

Paper 3 Multiple Choice (Supplement) **October/November 2014**

1 hour

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

3693647761

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1 Which statement about efficiency is correct?

A Allocative efficiency occurs when marginal revenue equals marginal cost.

B An economy is productively efficient when it is producing at a point on its production possibility curve.

C An economy will improve its allocative efficiency when its production possibility curve moves outward.

D Productive efficiency occurs when the prices of goods equal their marginal cost of production.

2 The schedule shows the total utility derived by a consumer of a good X at different levels of consumption.

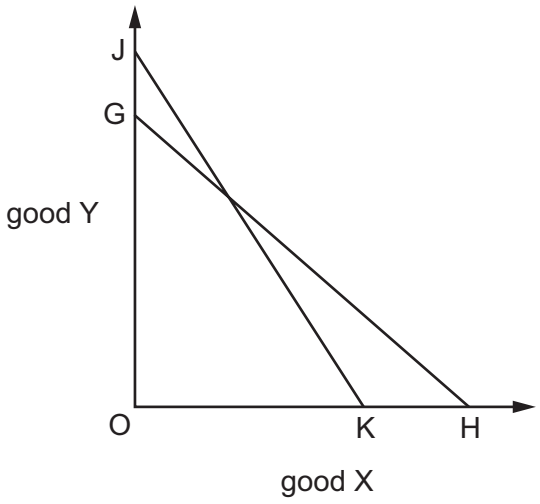
quantity of X consumed	1	2	3	4	5	6	7
total utility (units)	30	50	65	75	80	83	84

The consumer obtains two units of utility from the last $ she spends on each good that she purchases.

What is the maximum number of units of X that she will consume if the price of X is $5?

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

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



Which statement **must** be correct?

A The price of good X has increased relative to the price of good Y.

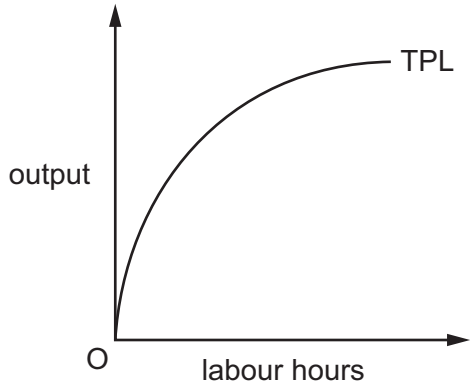
B The prices of both goods have fallen.

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

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

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4 The short-run production function in the diagram shows the relationship between the total product of labour and labour hours worked.



What is held constant when drawing this function?

A the average price level

B the hourly wage

C the size of the labour force

D the stock of capital

5 What is an example of a wage differential that compensates for the disadvantages associated with particular jobs?

A a tendency for wage rates negotiated by trade unions to exceed those for non-unionised labour

B government office workers being paid more than private sector office workers

C labourers on off-shore oil rigs earning more than those employed on-shore

D male workers earning more than female workers in the same job

6 To increase the labour force from 30 to 31 workers, an entrepreneur is forced to increase the daily wage rate from $40 to $41.

What is the marginal cost of labour per day?

A $1 **B** $31 **C** $71 **D** $1271

7 The workers in a firm have not previously belonged to a trade union but now join one.

In which circumstance is this most likely to raise their wages?

A Capital is highly substitutable for labour.

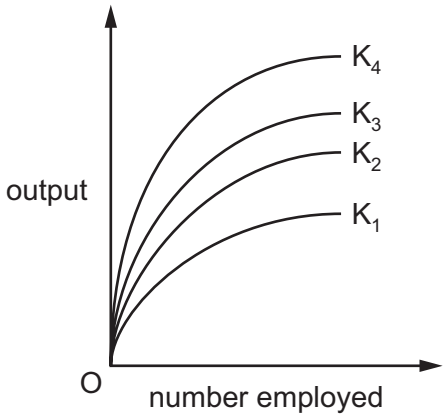
B Labour costs constitute a large fraction of the firm's costs.

C The demand for the firm's product is price-inelastic.

D The firm operates in a perfectly competitive labour market.

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8 The diagram shows the relationship between a firm's output and the number of workers employed at different levels of capital stock (K).



What does the diagram show?

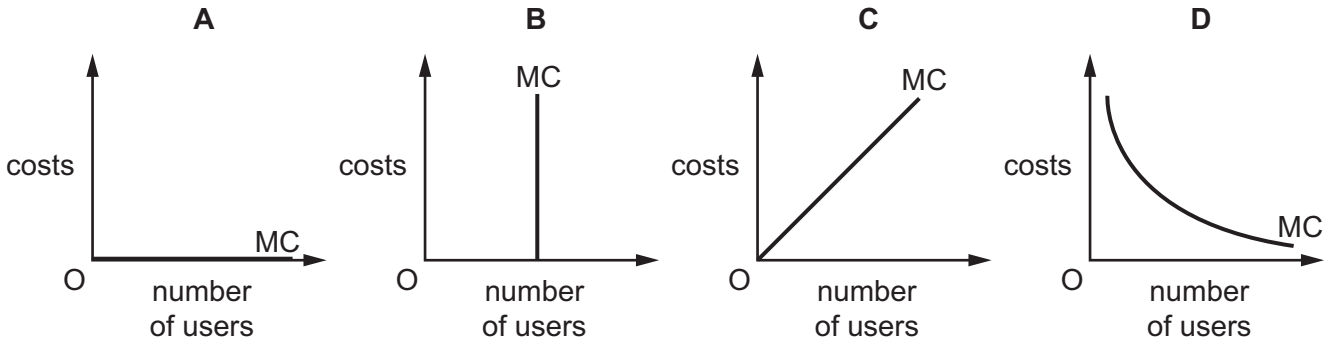
A the firm's long-run production function

B the firm's long-run rate of return on capital

C the firm's long-run total cost function

D the firm's short-run rate of return on capital

9 Which diagram shows the short-run marginal cost (MC) of providing a service where the total costs of production in the short run are fixed?



10 Which is a financial economy of scale?

A greater bargaining power in purchasing from suppliers

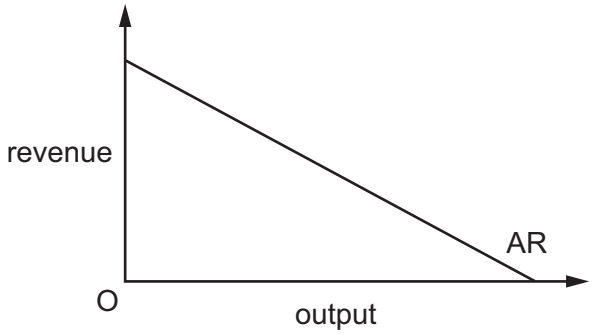
B greater diversification of the product range

C lower costs in raising capital

D lower distribution costs by increasing market share

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11 The diagram shows a firm's average revenue curve.



What can be deduced from the average revenue curve about the firm's total revenue as it increases output?

A It will rise continuously.

B It will fall continuously.

C It will rise initially then fall.

D It will fall initially then rise.

12 What is an assumption underlying the kinked demand curve in oligopoly?

A A firm will increase its price in response to a price increase by a rival.

B A firm will not match a price cut by a rival.

C Consumers are less sensitive to price increases than price decreases.

D Rivals are expected to match any reduction in price.

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

What would happen to price and output if it maximised its profits?

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

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14 In many countries, laws exist which prohibit firms from copying innovations introduced by other firms.

What is the economic reason behind these laws?

A A degree of monopoly power can help to achieve allocative efficiency.

B A degree of monopoly power may be helpful in achieving technical progress.

C Research and development is best conducted by government organisations.

D The prices of goods produced by monopolies need to be regulated.

15 Which policy change will make some individuals better off without making anyone worse off?

A allowing farmers to buy and sell milk quotas

B introducing a national minimum wage

C introducing free bus travel for those over 60

D removing restrictions on the opening hours of supermarkets

16 A good gives rise to external benefits and is produced under conditions of monopolistic competition.

Which statement must be correct?

A Output of the good is at the socially optimum level.

B Output of the good is above the socially optimum level.

C Private costs exceed social benefits.

D Social benefits exceed private benefits.

17 A woman joins the labour force earning a salary of $25 000 per annum. Her partner, who is already employed, earns $18 000 per annum. The couple pay a childminder $8000 per annum to look after their baby.

What will be the increase in GDP?

A $17 000 **B** $25 000 **C** $33 000 **D** $51 000

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18 A central bank purchases government securities as part of a policy of quantitative easing.

What is likely to be the effect on interest rates and the supply of money?

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

19 An economy is operating at its natural rate of unemployment.

According to monetarist theory, what will be the effect of an unanticipated increase in the money supply on unemployment in the short run and in the long run?

	short run	long run
A	no change	no change
B	no change	reduction
C	reduction	no change
D	reduction	reduction

20 In an economy in which there is full employment, the marginal propensity to consume of pensioners is greater than that of taxpayers. Government expenditure on pensions is decreased by $20 billion.

To maintain full employment, taxation must be

A increased by more than $20 billion.

B increased by less than $20 billion.

C reduced by less than $20 billion.

D reduced by more than $20 billion.

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21 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	100	100	120	100	700
200	100	100	120	140	100	800
200	100	100	130	170	100	900
200	100	100	140	200	280	1000

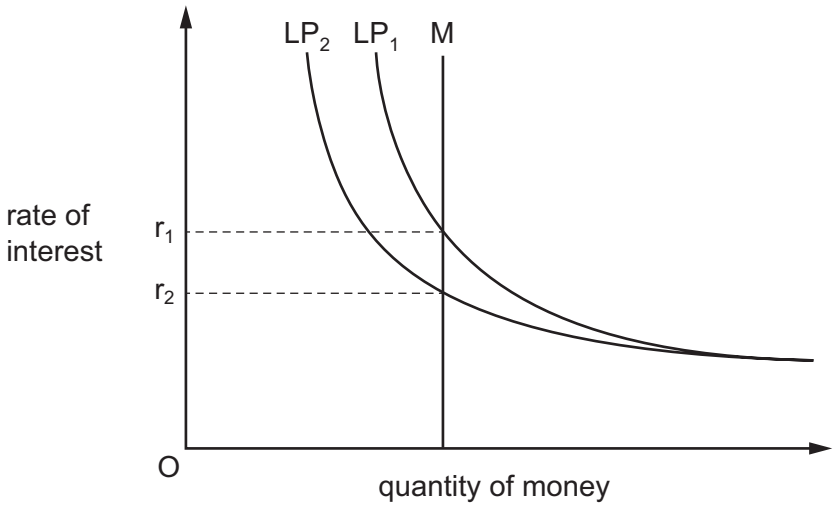
What is the equilibrium level of national income?

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

22 Assuming a constant income velocity of circulation of money, if the rate of inflation is 10% and the rate of growth of the money supply is 7%, what will be the approximate change in the volume of national output?

A –7% **B** –3% **C** +3% **D** +13%

23 The diagram shows two liquidity preference demand curves for money (LP). The money supply is M and the initial equilibrium rate of interest is r_1.



What could have caused the fall in the rate of interest from r_1 to r_2?

A an increase in output

B an increase in savings

C an increase in unemployment

D a rise in the price level

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24 What would be most likely to increase a country's long-run trend rate of growth?

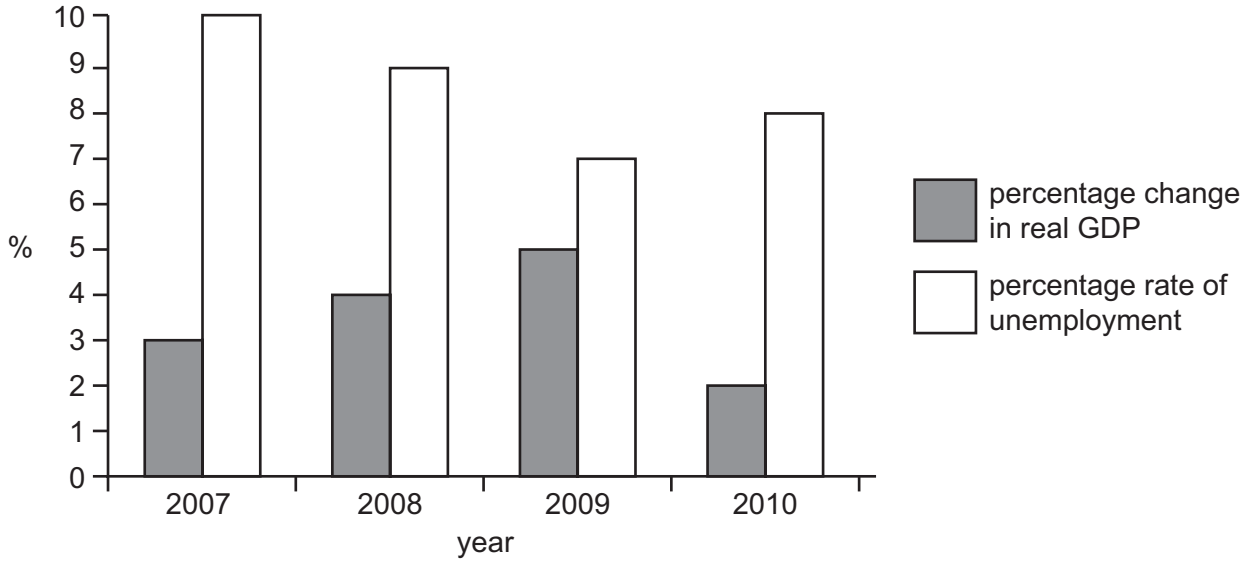
A an appreciation of the currency

B an increase in import tariffs

C an increase in the money supply

D a reduction in the ratio of Government Debt to GDP

25 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.

26 The number of people employed in a country and the level of unemployment both decrease.

What could explain this?

A an increase in the age at which state pensions are payable

B an increase in the number of students

C an increase in the population of working age

D net inward immigration

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27 Which combination of government interventions would be intended to support the lower income group in an economy?

	welfare payment system	tax system	type of subsidy
A	means tested	progressive	food
B	means tested	proportional	private transport
C	universal	proportional	food
D	universal	progressive	private transport

28 The government of a major trading country imposes a tariff on imported goods.

What is likely to be the impact on the prices paid to the foreign producers of the goods and on the prices paid for the goods by domestic consumers?

	prices paid to foreign producers	prices paid by domestic consumers
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

29 In which set of circumstances is an economy likely to experience both falling inflation and, at the same time, falling unemployment?

	unemployment	actual growth rate in output
A	above the natural rate	above long-term trend rate of growth
B	above the natural rate	below long-term trend rate of growth
C	below the natural rate	above long-term trend rate of growth
D	below the natural rate	below long-term trend rate of growth

30 If the unemployment that exists in a country is judged to be mainly structural, which is the most effective policy the government could implement?

A increase subsidies for training

B increase the money supply

C reduce tax rates

D raise interest rates

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1 Which condition defines productive efficiency?

A All factors of production are fully employed.

B All firms are producing at their profit-maximising levels of output.

C There are no further opportunities for substituting capital for labour.

D The output of all goods is produced at the lowest possible cost.

2 A household makes the following purchases of fruit.

fruit	quantity purchased (kg)	price per kg ($)
bananas	5	1.00
apples	10	0.50

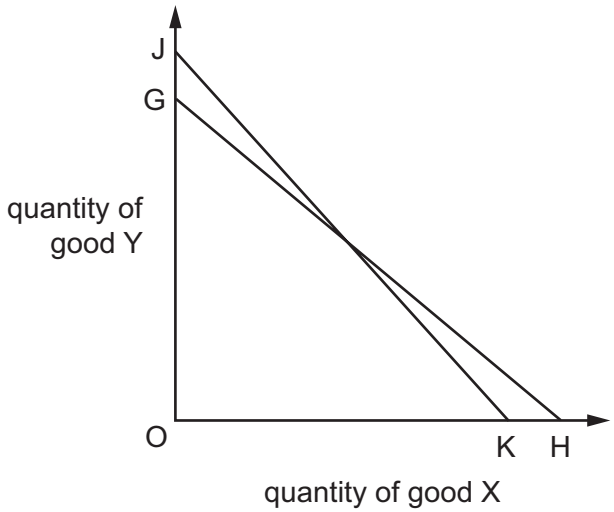
The household derives twice as much utility from the tenth kg of apples as from the fifth kg of bananas.

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

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

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



Which statement must be correct?

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

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

C Good Y has become relatively more expensive.

D Good X has become relatively more expensive.

4 A worker is considering accepting a job she has been offered. She draws up a list of the annual monetary values she places on the advantages and disadvantages of the job.

advantages and disadvantages of the job	value ($)
income	750
dangerous working conditions	500
long working hours	250
high prestige of the job	200
cost of providing own uniform	150
opportunity for travel	100
short holidays	50

What can be concluded from the table?

A She values the pecuniary advantages more highly than the non-pecuniary advantages.

B She would take the job even if it had none of the non-pecuniary advantages.

C The job has no pecuniary disadvantages.

D The non-pecuniary advantages outweigh the non-pecuniary disadvantages.

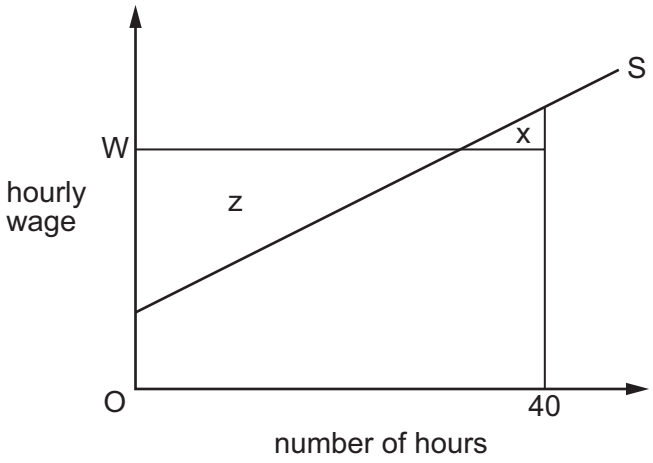
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5 To increase its labour force from 100 to 101 workers, a firm has to increase its daily wage rate from $500 to $502.

What is the marginal cost of labour per day?

A $2 **B** $200 **C** $202 **D** $702

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



The hourly wage is W and the worker is required to work a standard 40-hour week.

Which area measures the net improvement in the worker's welfare if he were allowed to choose the number of hours he wished to work per week?

A x **B** z – x **C** z + x **D** z

7 A firm's workers join a trade union which negotiates an increase in the workers' wage rate.

The increase in the wage rate results in an increase in the number employed by the firm.

What could explain this?

A The demand for the firm's product is price-elastic.

B The firm is a monopsonist within its local labour market.

C The firm operates in a perfectly competitive labour market.

D There is a high degree of substitutability between capital and labour.

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8 The table below shows the relationship between total output and total costs of a firm given constant factor prices and fixed factor proportions.

output	costs ($)
100	100
200	160
300	180
400	320
500	500

It follows that, over this range of output, the firm experiences

A decreasing returns for output between 100 and 300 and increasing returns for output larger than 300.

B increasing returns for output between 100 and 300 and decreasing returns for output larger than 300.

C decreasing returns throughout.

D increasing returns throughout.

9 In 2009, the United Kingdom's largest grocery supermarket, Tesco plc, created Tesco Bank offering a range of financial services to customers.

This is an example of

A external growth and horizontal merger.

B external growth and vertical merger.

C internal growth and diversification.

D internal growth and market concentration.

10 The price elasticity of demand for a firm's product is zero.

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

A Its revenue will be unchanged.

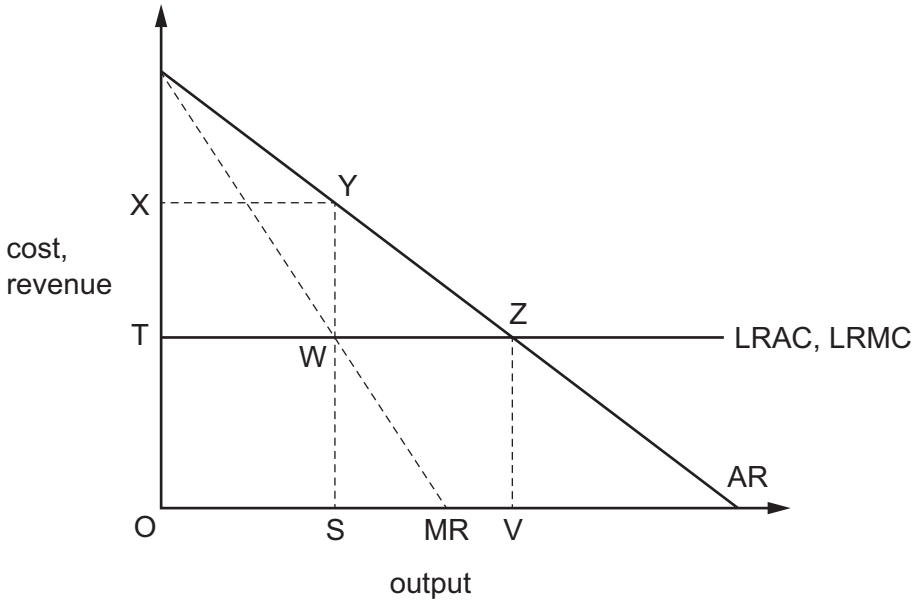
B Its revenue will decrease by 5%.

C Its revenue will increase by 5%.

D Its revenue will fall to zero.

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11 The diagram shows an industry producing under conditions of constant average costs.



Under perfect competition, the industry produces output OV.

Which area measures the increase in the industry's profits if it were to become a monopoly?

A XYSO **B** XYWT **C** XYZT **D** YZW

12 When is collusion likely to be successful in an oligopolistic market?

A Barriers to entry are relatively low.

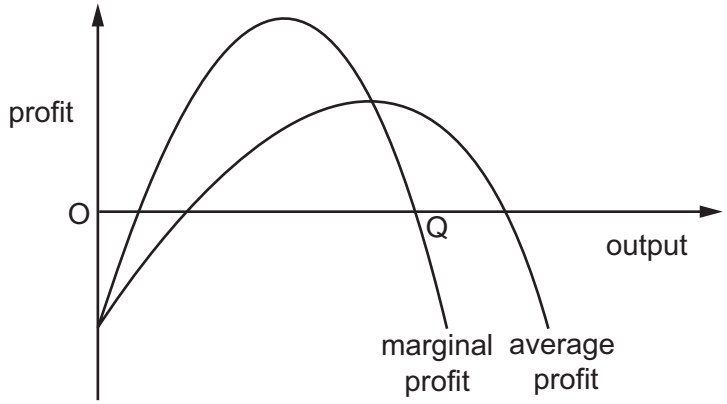
B Firms have accurate information about each other's output levels.

C There are significant differences in the firms' costs of production.

D There are significant fluctuations in demand from one period to another.

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13 The diagram shows how a firm's average profit and marginal profit vary at differing levels of output.



If the firm produces output OQ, which statement is correct?

A The firm is earning a zero profit.

B The firm is making a normal profit.

C The firm is maximising its profit.

D The firm is producing above its profit-maximising output.

14 A firm wishes to acquire some of the consumer surplus its customers currently enjoy.

How might it achieve this?

A by introducing price discrimination

B by reducing operating costs

C by setting a price that maximises revenue

D by taking advantage of economies of scale

15 A country's steel producers are members of a cartel. Each member is allocated a production quota, and initially produces the maximum allowed under its quota.

What will be the effect on total steel production and the industry's total profits of allowing the producers to trade the quotas among themselves?

	effect on production	effect on total profits
A	increase	increase
B	increase	no change
C	no change	increase
D	no change	no change

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16 The introduction of a minimum hourly wage for all workers over 21 years of age is expected to increase the average wages of these workers.

What will be the likely effect on workers under 21?

	unemployment for under 21s	average wages for under 21s
A	falls	fall
B	falls	rise
C	rises	fall
D	rises	rise

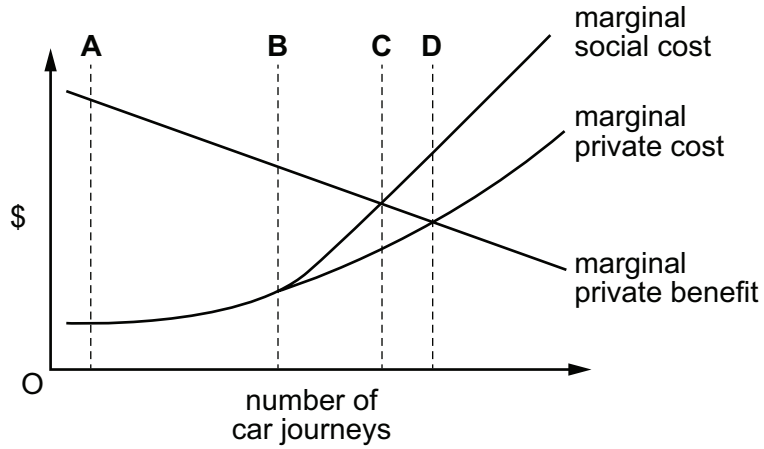
17 A government introduces tax incentives which promote effort and enterprise. They also redistribute income from those who receive a higher marginal utility from money to those with a lower marginal utility from money.

What effect will these tax incentives have on efficiency and equity?

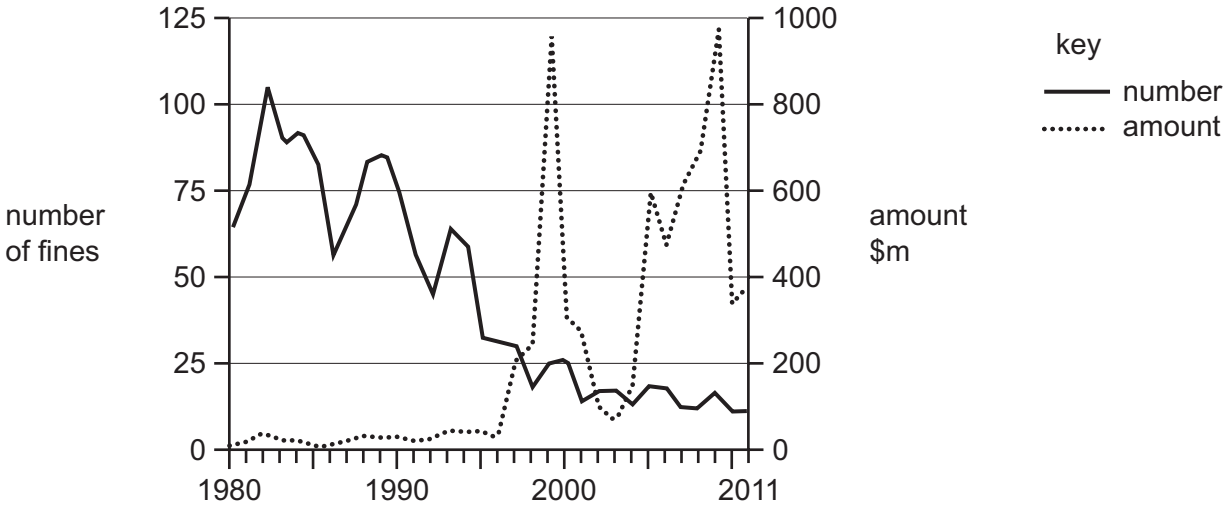
	efficiency	equity
A	increase	increase
B	increase	reduce
C	reduce	increase
D	reduce	reduce

18 The diagram shows the private and social costs and the private benefits that arise as the number of car journeys into a city centre increases.

In the absence of any external benefits, which volume of traffic would maximise the community's welfare if entry could be restricted through the issue of permits?



19 The diagram shows the number and amount of fines ($m) imposed by the US Department of Justice for firms' illegal cartel behaviour between 1980 and 2011.



What is the most likely conclusion from the diagram about the view of the US Department of Justice of firms' cartel behaviour?

A It believed that cartel behaviour was unimportant before 1980.

B It believed that illegal cartel behaviour was insignificant in 2011.

C It believed that increasing fines was necessary to deter cartel behaviour.

D It believed that the free market can regulate cartel behaviour.

20 During a year, a country's national income in money terms increased by 8%, total population increased by 2% and real income per head remained constant.

What was the approximate change in the average price level?

A a decrease of 4%

B an increase of 4%

C an increase of 6%

D an increase of 10%

21 A central bank pursues a policy of quantitative easing by purchasing government securities.

What is likely to happen to interest rates and aggregate expenditure?

	interest rates	aggregate expenditure
A	fall	fall
B	fall	rise
C	rise	fall
D	rise	rise

22 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	decrease	decrease	increase
B	decrease	increase	decrease
C	increase	decrease	increase
D	increase	increase	decrease

23 In a closed economy with no government C = 40 + 0.8 Y and I = 60, where C is consumption, Y is income and I is investment.

What is the equilibrium level of income?

A 80 **B** 100 **C** 300 **D** 500

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

What is most likely to result from this?

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

B an increase in the country's relative labour costs

C a depreciation of the country's currency

D an increase in real income per head

25 Which change would cause an increase in a country's Human Development Index?

A a decrease in gender inequality

B a decrease in income inequality

C an increase in the mean years of schooling

D an increase in the retirement age

26 Real output in an economy grows by 2.5% but at the same time the level of employment decreases.

What can be deduced from this information?

A Actual output has grown more quickly than potential output.

B Labour productivity has increased.

C Population of working age has fallen.

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

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27 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	decrease
B	decrease	decrease	increase
C	increase	increase	decrease
D	increase	increase	increase

28 The table shows some indicators of macro-economic performance in the US economy for five decades.

economic target	1950s	1960s	1970s	1980s	1990s
real GDP growth (average %)	4.18	4.43	3.28	3.02	3.03
inflation (average %)	2.07	2.33	7.09	5.66	3.00
unemployment (average %)	4.51	4.78	6.22	7.27	5.76

Between which decades did the US government achieve an overall improvement in its performance with no trade-off between individual policy goals?

A 1950s to 1960s

B 1960s to 1970s

C 1970s to 1980s

D 1980s to 1990s

29 Why might a reduction in domestic interest rates have an adverse effect on a country's balance of payments on the current account?

A It will cause a rise in the exchange rate.

B It will make the country's industry less competitive.

C The resulting higher level of economic activity is likely to increase imports.

D There will be an outflow of capital from the country.

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[Turn over

30 At present, a country's government has set its central bank a target rate of inflation of 2%.

What is likely to happen to interest rates and the exchange rate if the target inflation rate is raised to 3%?

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

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1 In an economy no one can be made better off without making others worse off.

What can be concluded from this?

A All markets are perfectly competitive.

B There are no externalities.

C The economy is operating on its production possibility curve.

D The distribution of income reflects what each individual deserves.

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

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

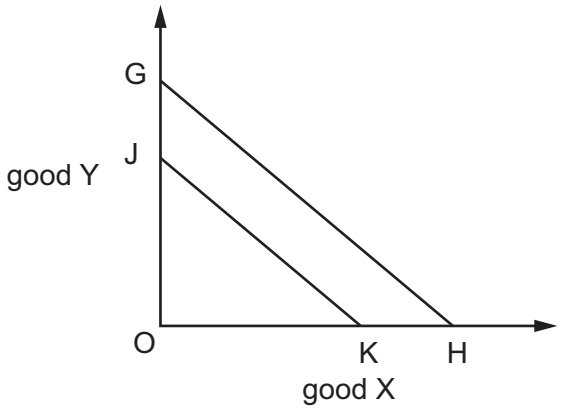
good	X	Y	Z
marginal utility (units)	3	5	10
price ($)	10	15	30

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

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

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



Which statement is correct?

A There has been a decrease in the price of both X and Y.

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

C There has been no change in the price of X or Y.

D There has been no change in the price of X relative to the price of Y.

4 Night shift workers are often paid more than day shift workers performing the same tasks.

What could explain this observed wage differential?

A higher productivity of day shift workers

B non-pecuniary disadvantages of working night shifts

C the absence of competition between the two groups of workers

D the inclusion of economic rent in the wages paid to night shift workers

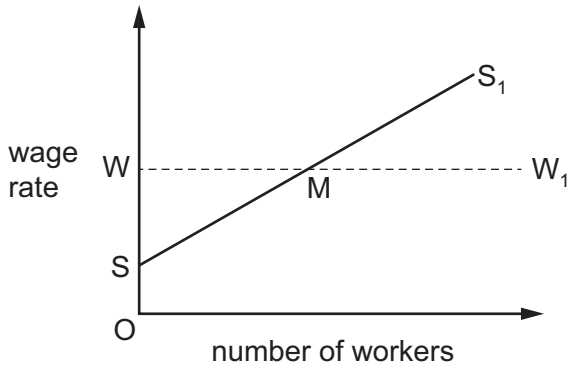
5 A firm currently employs 100 workers and its daily wage bill is $30 000.

An increase in its labour force to 101 workers would result in a $502 increase in its daily wage bill.

What is the marginal cost of labour per day?

A $2 **B** $202 **C** $502 **D** $30 502

6 The curve SS_1 in the diagram is the supply of labour curve facing a firm before the unionisation of its workforce.

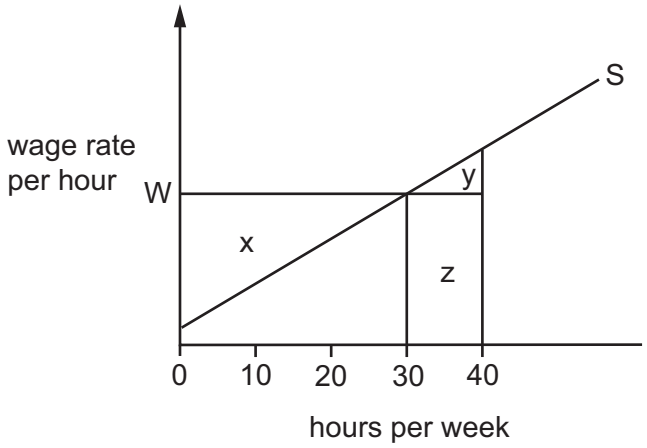


The union negotiates a wage equal to W.

What does the labour supply curve now become?

A MS_1 **B** SMW_1 **C** WW_1 **D** WMS_1

7 The diagram shows a worker's supply of labour curve.



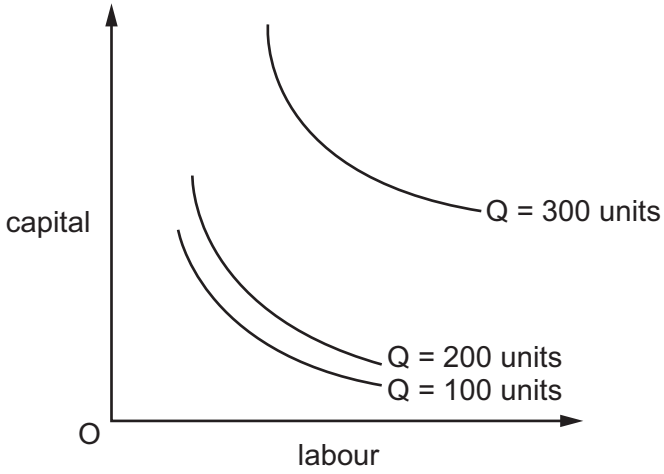
The worker is required to work a minimum of 40 hours a week at the hourly wage, 0W.

Which area measures the economic rent obtained by the worker?

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

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



What can be concluded from a comparison of curves in the diagram?

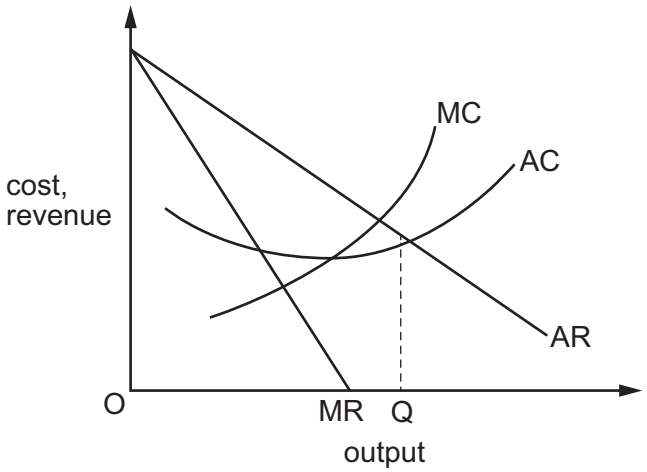
A Over the 100 to 200 units output range, the firm encounters constant returns to scale.

B Over the 100 to 200 units output range, the firm encounters decreasing returns to scale.

C Over the 200 to 300 units output range, the firm encounters decreasing returns to scale.

D Over the entire range of output, the firm encounters increasing returns to scale.

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



What could explain why the firm produces output OQ?

A It is operating in a perfectly competitive market.

B It is seeking to achieve satisfying profits.

C It is seeking to maximise profits.

D It is seeking to maximise sales revenue.

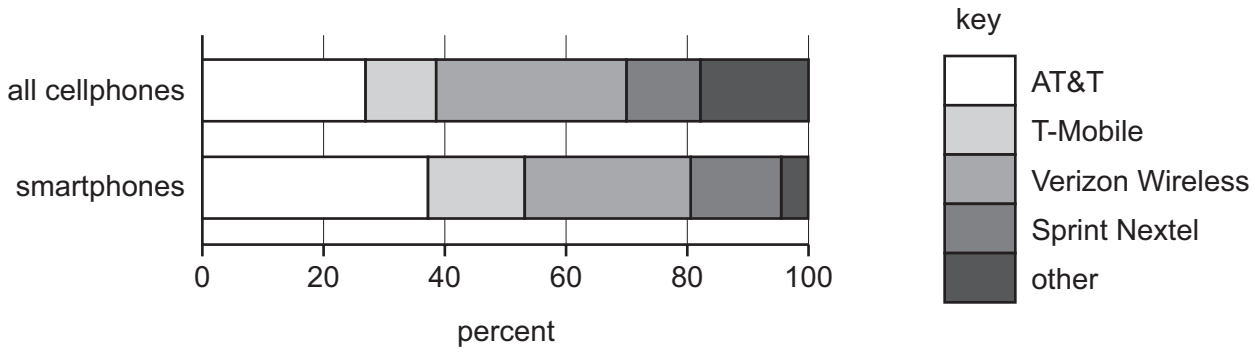
10 The table shows the total revenue and marginal cost of a firm at different levels of production.

production (tonnes)	total revenue ($)	marginal cost ($)
2	100	10
3	130	15
4	160	20
5	190	25
6	220	30
7	250	40

Given the firm wishes to maximise its profits, what is the highest output the firm will produce?

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

11 The diagram shows the percentage market share of mobile network operators in the US in January 2011.



What can be concluded from the diagram?

A AT&T has the largest share of both markets.

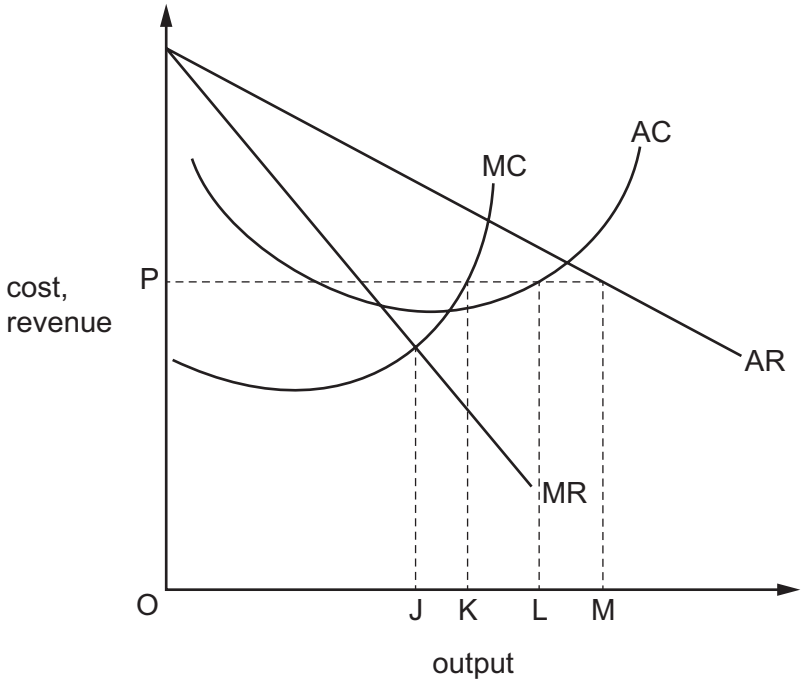
B Small firms are unable to survive in either market.

C The four firm concentration ratio is greater than 80% in both markets.

D The market for smartphones is more competitive than the market for all cellphones.

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12 In the diagram, MC and AC are a profit-maximising monopolist's marginal and average cost curves, and MR and AR, its initial marginal and average revenue curves.

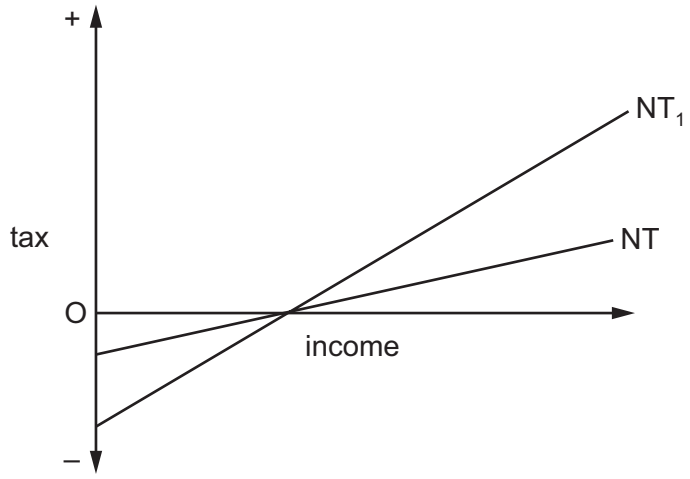


Which distance will measure excess demand if the government sets a maximum price of P?

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

13 A country has a negative income tax system.

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.

What is likely to be the impact on efficiency and on equity?

	efficiency	equity
A	improvement	improvement
B	improvement	worsening
C	worsening	improvement
D	worsening	worsening

14 The table shows the costs of two milk producers.

	cost per litre ($)
firm X	10
firm Y	7

The price received by producers is $12 per litre. Both firms have been given quotas allowing them to produce 200 litres per day.

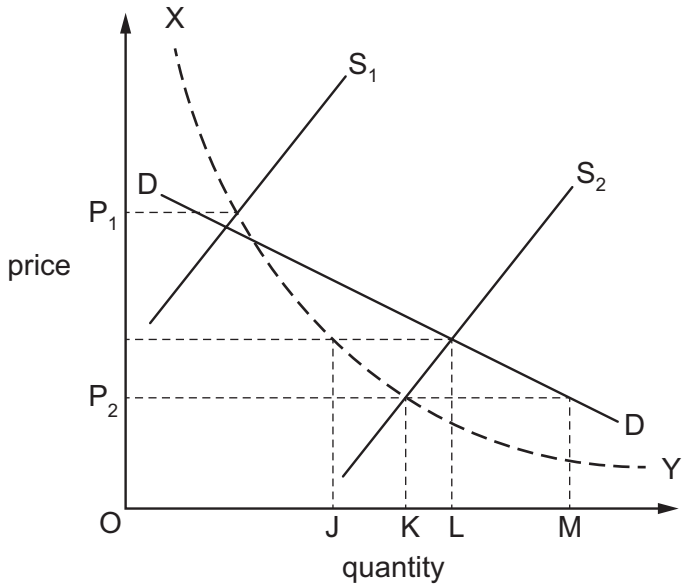
Firm Y asks firm X if it can buy firm X's quota.

Assuming constant costs of production and zero costs of entry and exit, what is the minimum amount (per day) firm X would be willing to accept to sell its quota to firm Y?

A $400 **B** $600 **C** $1000 **D** $2400

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15 In the diagram, DD is the demand curve for an agricultural commodity, S_1 is the supply curve in period 1 and S_2 is the supply curve in period 2. The broken curve XY is a rectangular hyperbola.



The government operates a buffer stock scheme designed to keep farm revenue unchanged.

In period 1 the price is fixed at P_1.

What action will the government need to take in period 2 to fix the price at P_2?

A add quantity JK to the buffer stock

B add quantity KL to the buffer stock

C release quantity KL from the buffer stock

D release quantity KM from the buffer stock

16 What acts as a constraint on the use of income taxes to redistribute income to poorer groups in society?

A the costs to employers of tax collection

B the fact that poorer groups have a higher marginal propensity to save

C the fact that richer and poorer groups have the same marginal propensity to consume

D the likelihood that, at some point, higher marginal taxes will reduce tax revenue

17 Between 2008 and 2009 a country's national income at current prices increased by 15%. At the same time the country experienced 5% inflation.

Which index number most closely represents the country's national income in 2009 at 2008 prices (2008 = 100)?

A 103 **B** 110 **C** 115 **D** 120

18 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.

19 The table shows data on a country's gross national product at market prices and on domestic spending.

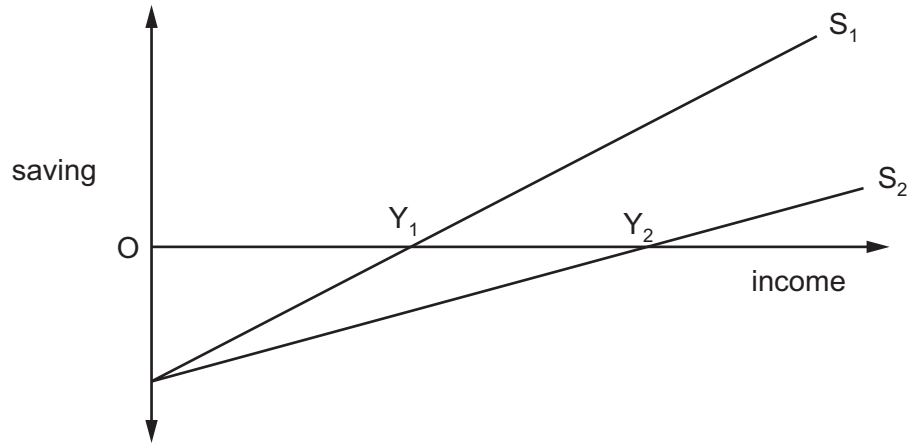
	year 1 ($m)	year 2 ($m)	year 3 ($m)
GNP at market prices	420	440	560
private consumption	200	260	300
government consumption	120	120	140
gross investment	90	80	130

In which of these years will the country be faced with a deficit on the current account of the balance of payments?

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

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20 The diagram shows a shift in the economy's saving function from S_1 to S_2.



What can be deduced from the diagram?

A Autonomous consumption has increased.

B Equilibrium national income has increased from OY_1 to OY_2.

C The marginal propensity to save has increased.

D The multiplier has increased.

21 A country's government has a fiscal deficit of $200 billion which it finances by borrowing from the central bank.

In the absence of offsetting factors, what will happen to aggregate expenditure and to the money supply if the government reduces the size of its deficit to $120 billion by cutting public spending?

	aggregate expenditure	money supply
A	decrease	decrease
B	increase	decrease
C	decrease	increase
D	increase	increase

22 According to Keynesian theory, in which circumstance will there always be an increase in the demand for money?

	real income	price level	interest rates
A	constant	decrease	increase
B	constant	increase	decrease
C	increase	decrease	decrease
D	increase	increase	increase

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23 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

24 What is most likely to cause a decrease in a country's long-run rate of economic growth?

A an ageing population

B increased inward migration

C a decrease in the government's budget deficit

D a decrease in the share of agriculture in the country's GDP

25 The graph shows the annual percentage changes in the prices of new houses and existing houses in the United Kingdom between 2010 and 2012.



What can be concluded from the graph?

A From October 2010 new houses on average were more expensive than existing houses.

B The average price of new houses peaked in October 2011.

C The average price of existing houses was lower in May 2011 than in May 2010.

D The average price of existing houses fell to their lowest level in May 2011.

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26 The Human Development Index (HDI) measures three dimensions of human development.

What is **not** included as one of these dimensions?

A access to knowledge

B a decent standard of living

C a long and healthy life

D equal economic opportunity

27 What is the opportunity cost to society of an increase in unemployment?

A the increase in taxes to pay for unemployment benefits

B the loss in national output

C the reduction in the disposable income of those who lose their jobs

D the resulting increase in the government's fiscal deficit

28 Which policy to correct a balance of payments deficit would be classified as an expenditure dampening policy?

A a devaluation of the exchange rate

B an increase in direct taxes

C an increase in import tariffs

D the introduction of import quotas

29 An economy with unemployed resources experiences an increase in government expenditure financed by borrowing from the non-bank private sector.

What would diminish the resulting increase in GDP?

A an expansion of the money supply

B an increase in private investment

C a reduction in the marginal propensity to save

D a rise in the level of interest rates

30 What would be an economic benefit to a major trading economy of imposing a tariff on imported goods?

A It would increase labour productivity.

B It would increase pressure on foreign suppliers to reduce their prices.

C It would make the country's exports more competitive.

D It would reduce the prices paid by consumers for imported goods.

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