Cambridge International A Level

Cambridge International Examinations
Cambridge International Advanced Level

ECONOMICS **9708/31**

Paper 3 Multiple Choice (Supplement) **October/November 2015**

1 hour

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

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1 An economy is said to be economically inefficient if

A it is possible to make some people better off without making other people worse off.

B the distribution of income is socially unacceptable.

C the government sector is growing at the expense of the private sector.

D wage rates rise faster than production.

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

quantity of good (units)	total utility (units)
1	20
2	36
3	50
4	62
5	72
6	80

The individual's marginal utility of money is $1 = 3 units of utility.

What is the maximum quantity of the good that the individual will buy when its price is $4?

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

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

A As additional workers are hired, total output decreases.

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

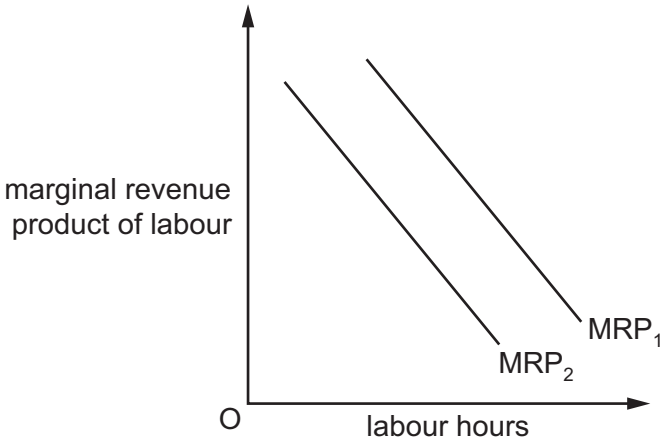
C As employment increases, wage rates will have to be increased.

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

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4 The diagram shows a firm's initial marginal revenue product of labour curve (MRP_1).



What could cause the curve to shift to MRP_2?

A an increase in labour productivity

B an increase in the wage rate

C a reduction in labour hours

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

5 A worker decides to work fewer hours when there is a rise in her real wage.

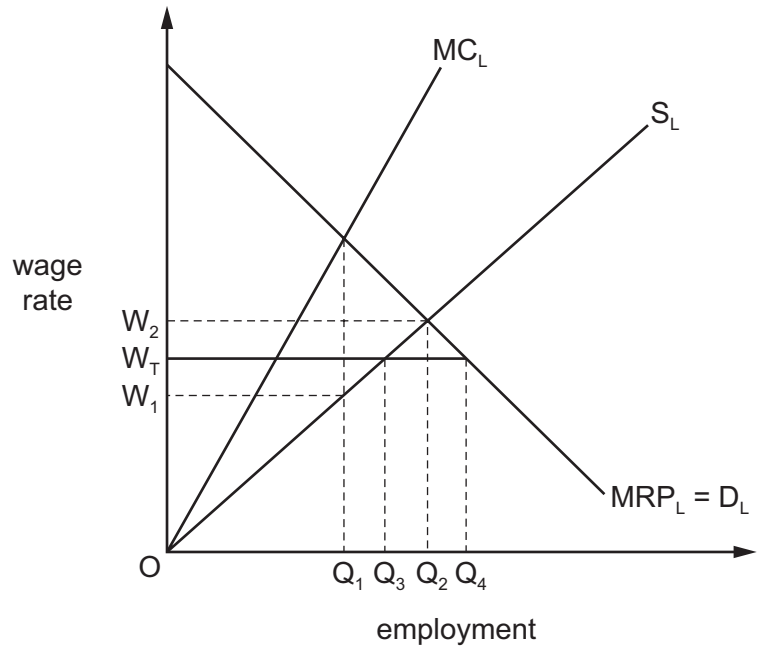
How is this explained by income and substitution effects?

	income effect	substitution effect	balance of effects
A	negative	positive	income effect outweighs substitution effect
B	negative	positive	substitution effect outweighs income effect
C	positive	negative	substitution effect outweighs income effect
D	positive	positive	income effect outweighs substitution effect

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6 The diagram shows what happens when the employees of a profit maximising monopsonist employer form a trade union and successfully negotiate a wage rate of OW_T.



What is the effect of the new wage rate on employment?

A It falls from OQ_2 to OQ_1.

B It falls from OQ_2 to OQ_3.

C It rises from OQ_1 to OQ_3.

D It rises from OQ_1 to OQ_4.

7 The schedule shows the short-run marginal cost of producing good X.

units of X	1	2	3	4	5
marginal cost ($)	50	40	20	20	60

Given that the total fixed cost is $10, what level of output minimises average total cost?

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

8 What is most likely to explain why both large and small firms are often found within the same industry?

A All firms in the industry produce identical products.

B Firms that assemble the final product buy components from specialist firms within the industry.

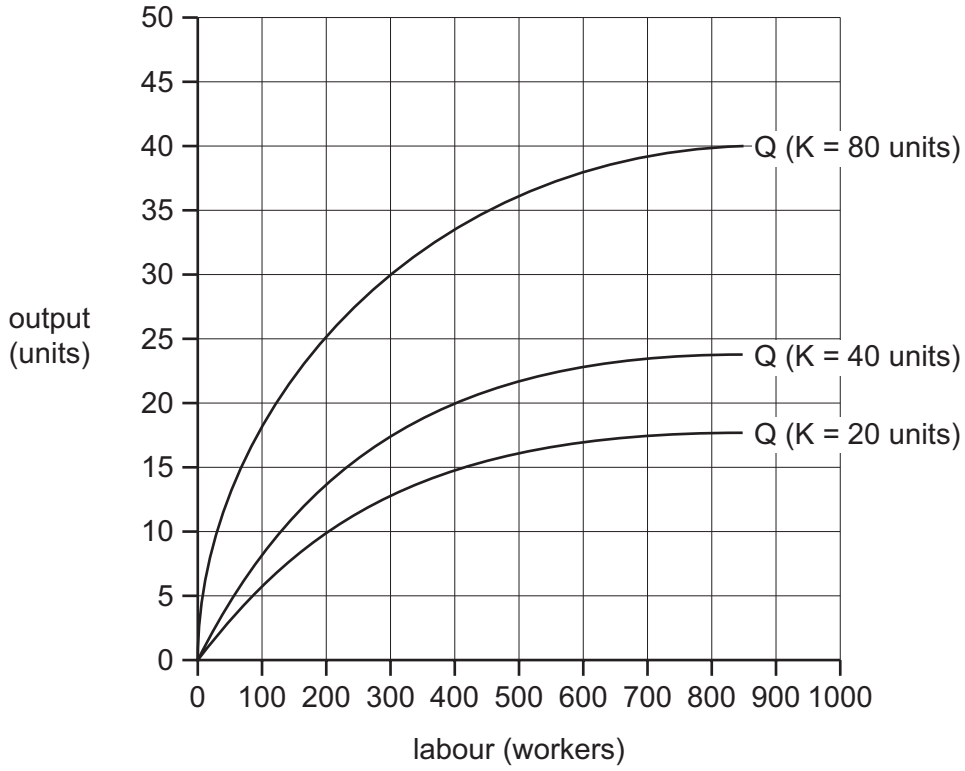
C Production within the industry is subject to diseconomies of scale.

D There are significant barriers to the entry of new firms into the industry.

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9 The diagram shows how a firm's output (Q) changes in response to changes in the number of workers it employs and the number of units of capital (K) it hires.



Initially, the firm hires 20 units of capital and employs 200 workers.

Assuming factor prices remain constant, what is the shape of the firm's long-run average cost curve?

A downward-sloping

B horizontal

C upward-sloping

D U-shaped

10 A firm takes over one of its main competitors.

What is likely to happen to the price elasticity of demand for the firm's product and what will be the impact of the takeover on its average cost of production?

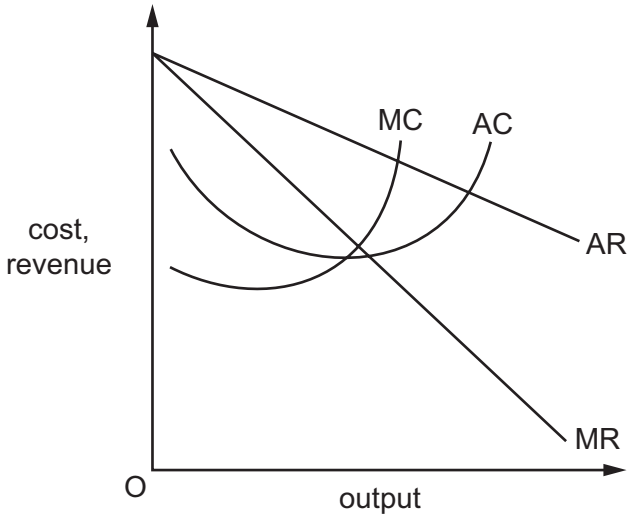
	price elasticity of demand	average cost
A	decreases	increases
B	decreases	uncertain
C	increases	increases
D	increases	uncertain

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[Turn over

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



The firm currently aims to maximise its sales volume subject to earning a normal profit.

What will be the effect on price and output if it changes its objective to revenue maximisation while retaining the same minimum profit constraint?

	effect on price	effect on output
A	increase	no change
B	increase	reduce
C	no change	no change
D	no change	reduce

12 In the UK, four bus companies control more than two-thirds of the market.

Critics claim that the big four agree to fix prices on some routes to maximise revenue whilst temporarily lowering prices on other routes to drive out smaller competitors.

Which anti-competitive practices are the big four bus companies accused of?

A collusion and limit pricing

B collusion and predatory pricing

C limit pricing and price discrimination

D price discrimination and predatory pricing

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

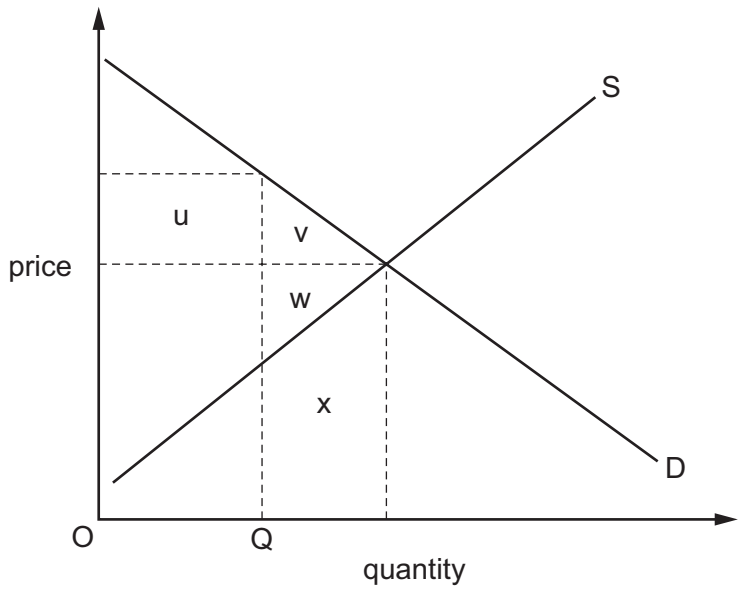
A The industry consists of a large number of producers.

B The industry has many differentiated products.

C The industry is characterised by rapid technological change.

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

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

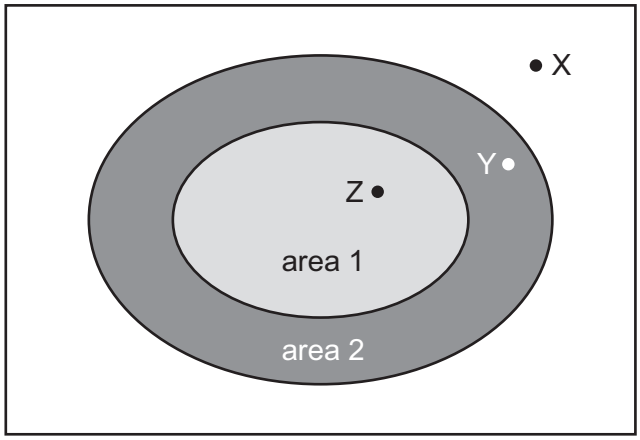


In the absence of externalities, which area in the diagram measures the net loss in economic welfare if the government restricts the level of output to OQ?

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

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15 At present, motorists who drive their cars within area 1 on the map pay a daily congestion charge of $8. However, motorists who live within the congestion charge zone are eligible for a 90% discount.



Which car journeys would decrease in number if the congestion zone area were extended to include area 2?

A journeys from point X to point Z

B journeys from point Y to point X

C journeys from point Y to point Z

D journeys from point Z to point Y

16 A government requires all its young citizens to undertake community service for a period of 6 months. The wages paid to those on the community service are below what they would otherwise have earned.

What effect will this have on recorded GDP and on national welfare?

	effect on GDP	effect on national welfare
A	reduction	increase
B	reduction	uncertain
C	unchanged	increase
D	unchanged	uncertain

17 What must result from a rise in the supply of money, if the income velocity of circulation remains unchanged?

A a fall in unemployment

B a rise in the volume of output

C a rise in the general level of prices

D a rise in the money value of national income

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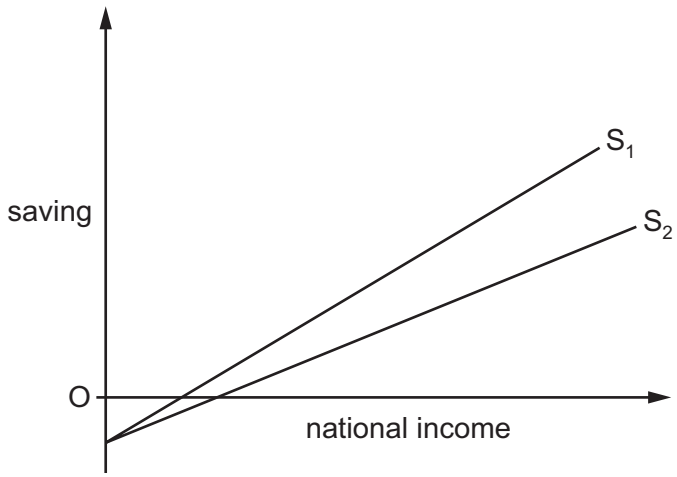
18 The table shows data on a country's gross domestic product (GDP) at market prices and on domestic spending.

	year 1 ($million)	year 2 ($million)	year 3 ($million)
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

19 In the diagram, S_1 is an economy's initial saving function.



If the saving function shifts to S_2, what effect will this have on the marginal propensity to consume and on the multiplier?

	marginal propensity to consume	multiplier
A	decreases	decreases
B	decreases	increases
C	increases	decreases
D	increases	increases

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

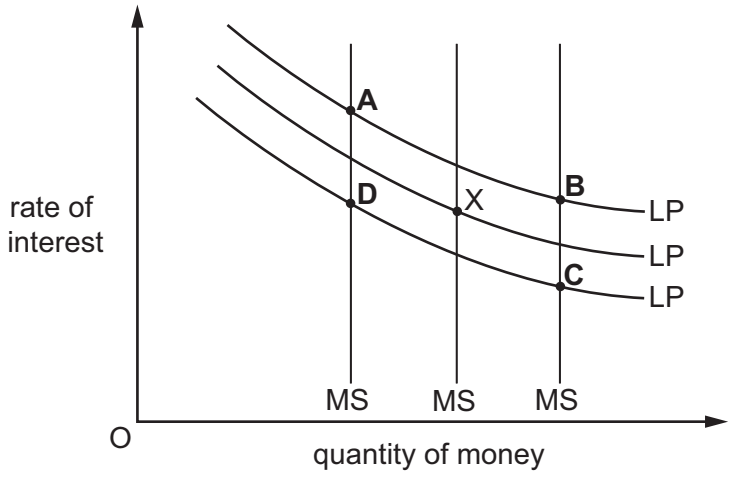
If the velocity of circulation of money remains the same, what will be the approximate increases in the price level and the money value of national income?

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

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.

There is a reduction in bank lending and people decide to hold more money as a precaution against emergencies.

What could be the new equilibrium point?



22 Cuba, a developing country, achieves health and education standards as high as those found in leading developed countries. Yet, in 2005, its Human Development Index (HDI) value placed it 51st out of 177 countries surveyed.

What might have explained its HDI value?

A Cuba has a relatively high level of absolute poverty.

B Cuba has a relatively large population.

C Cuba has a relatively low GDP per head.

D Cuba has relatively few people with access to safe water.

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23 Which characteristics are most commonly found in developing countries?

	saving ratio	capital-output ratio
A	low	low
B	high	low
C	low	high
D	high	high

24 Between 2012 and 2014 a country's national output fell by 2%.

Over the same period its unemployment rate decreased from 6% to 4%.

What could explain this?

A There was a decrease in labour productivity.

B There was a fall in the rate of inflation.

C There was an increase in the long-term potential rate of growth.

D There was an increase in the size of the labour force.

25 The table shows government revenue and expenditure of four countries as a % of GDP in 2000 and 2010.

Which country moved from a budget deficit position in 2000 to a budget surplus in 2010?

		revenue (% of GDP)		expenditure (% of GDP)	
		2000	2010	2000	2010
A	France	50.2	49.5	51.7	56.6
B	Norway	57.7	56.7	42.3	45.5
C	Sweden	58.7	52.4	55.1	52.5
D	Switzerland	35.2	34.0	35.6	33.8

26 In an economy operating below full employment, which combination of changes will definitely result in an increase in national income?

A a fall in the rate of taxation together with a rise in the saving rate

B a rise in government expenditure together with a fall in the propensity to import

C a rise in investment expenditure together with a rise in the rate of taxation

D a rise in the propensity to save together with a rise in exports

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27 Which tax is most likely to be regressive?

A an inheritance tax

B a property tax

C a sales tax

D income tax

28 Which policy by developed economies would be most beneficial for developing economies?

A a ban on resource exploration by mining companies in developing economies

B restrictions on investment by global firms in developing economies

C the abolition of restrictions on immigration of skilled labour from developing economies

D the withdrawal of agricultural subsidies in developed economies

29 Some European countries experienced a decline in investment spending in 2011-2012.

What might a government do to stop such a decline?

A increase quotas on imports

B lower interest rates

C raise income tax

D set up training courses

30 The government decides to raise the rate of Value Added Tax (General Sales Tax).

What does this suggest is the government's main macroeconomic objective?

A to reduce the budget deficit

B to reduce the inequality of income distribution

C to reduce the level of unemployment

D to reduce the rate of inflation

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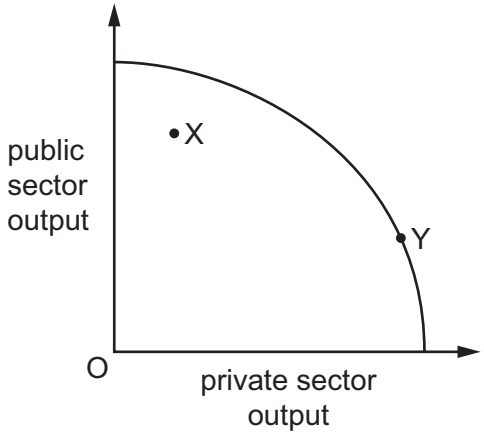
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1 The diagram shows the production possibility curve for a successful transition economy that moves from point X to point Y over time.

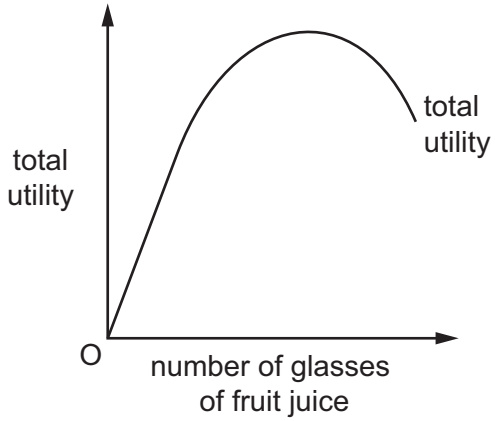


During the transition process the population of the country expressed a strong preference for increased privatisation.

What happens to economic efficiency as a result of the transition from point X to point Y?

	productive efficiency	allocative efficiency
A	increases	decreases
B	increases	increases
C	unchanged	decreases
D	unchanged	unchanged

2 The diagram shows an individual's total utility from consuming glasses of fruit juice.



How can this information help to derive the individual's demand curve for fruit juice?

A by revealing the individual's marginal utility curve

B by revealing the money value of marginal utility

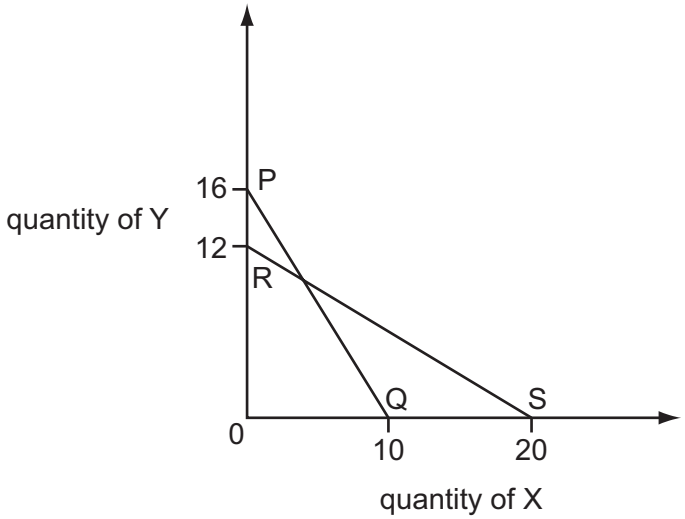
C by showing how total utility is maximised

D by showing the relationship between utility and expenditure

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



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

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

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

4 What will result from the differences in the non-pecuniary advantages of various occupations?

A disequilibrium in the labour market

B long-term differentials in wage rates

C monopsony in particular labour markets

D shortages of labour in particular occupations

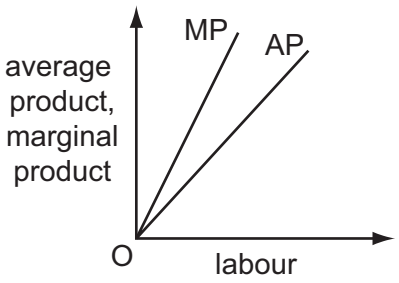
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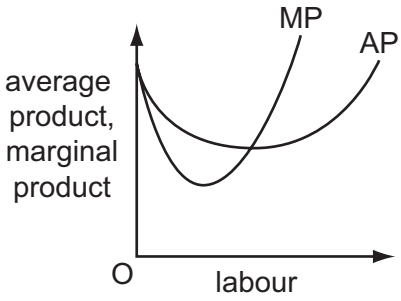
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5 Which diagram correctly shows the relationship between the average product (AP) and the marginal product (MP) of labour, given that the quantities of other factor inputs remain constant?

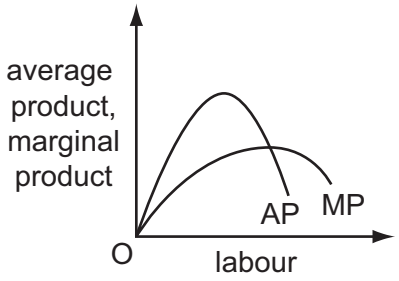
A



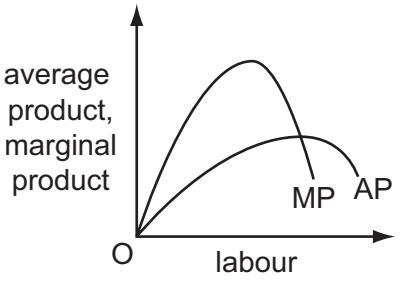
B



C



D



6 A firm currently pays its employees on an hourly basis.

Even though the management acknowledges that its employees work to the best of their ability and could not work any harder, the firm decides to switch to a piece-rate system of remuneration whereby the wage paid to each employee depends on their level of output.

Why might this new system of remuneration result in a significant improvement in labour productivity?

A It will dispense with the need for management to monitor the actions of its employees.

B It will increase the losses that workers will incur if they are dismissed for not working hard enough.

C It will lead to the recruitment and retention of more highly talented workers.

D It will strengthen the incentives for workers to increase their earnings.

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7 A fashion model is paid $500 000 a year.

If the next best paid job he could get is as a teacher at $100 000 a year, what are his transfer earnings and his economic rent?

	transfer earnings $	economic rent $
A	zero	400 000
B	100 000	400 000
C	400 000	zero
D	400 000	100 000

8 A fourfold increase in all of a firm's inputs results in a threefold increase in its output.

What does this illustrate?

A decreasing returns to scale

B economies of scale

C the law of diminishing returns

D the law of variable proportions

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

	land	labour
marginal product (units)	1	5
marginal cost per unit of factor ($)	4	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
A	less	less
B	less	more
C	more	less
D	more	more

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10 Firms can grow either externally or internally.

What represents internal growth?

	finding new export markets	merging with rival firms in the same industry	merging with firms in other industries
A	no	no	yes
B	no	yes	no
C	yes	no	no
D	yes	yes	yes

11 A firm, operating in an imperfectly competitive market, produces at the level of output where the price elasticity of demand for its product is equal to unity.

What has the firm achieved?

A normal profit

B maximum profits

C maximum revenue

D maximum sales volume

12 The table shows the five-firm concentration ratios for a selection of industries in an economy.

industry	percentage of total sales accounted for by the five largest firms in the industry (%)
tobacco	95
steel	60
water supply	60
printing	12

What can be concluded from the table?

A The firms are of equal size in the steel industry and the water supply industry.

B The printing industry is more competitive than the tobacco industry.

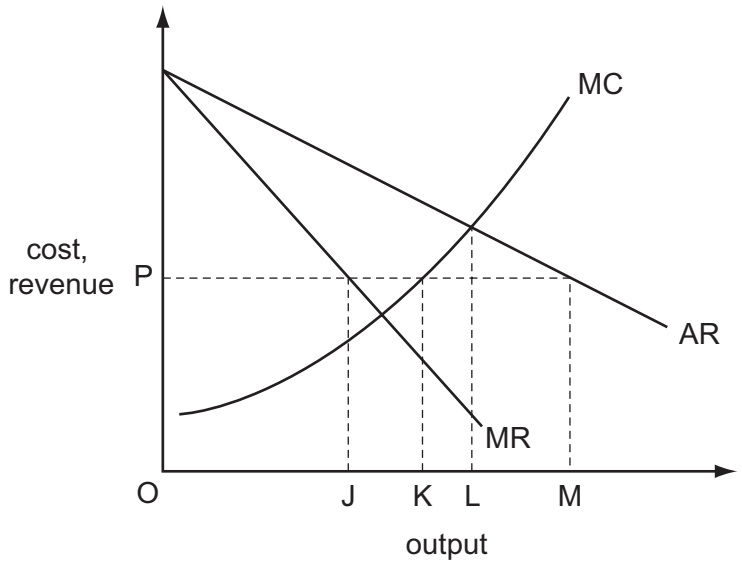
C The tobacco industry is a monopoly market.

D There are more firms in the tobacco industry than in the water supply industry.

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



What output will the firm produce if the government fixes the price at OP?

A OJ **B** OK **C** OL **D** OM

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

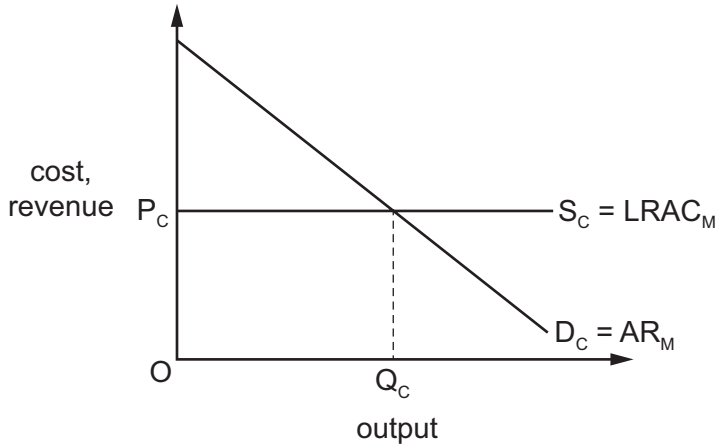
How is this likely to affect consumer surplus and the firm's marketing costs?

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

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15 The diagram shows the demand curve, D_C, and supply curve, S_C, of a perfectly competitive industry.



The industry is taken over by a monopolist. The monopolist's long-run average cost curve, $LRAC_M$, is identical to the supply curve of the perfectly competitive industry.

What will be the effects of the takeover on profit and allocative efficiency?

	profit	allocative efficiency
A	decreases	decreases
B	decreases	increases
C	increases	decreases
D	increases	increases

16 Which government microeconomic policy is **not** usually aimed at correcting allocative inefficiency in an economy?

A anti-monopoly legislation

B congestion charges for the use of roads in cities

C pollution taxes imposed on various firms

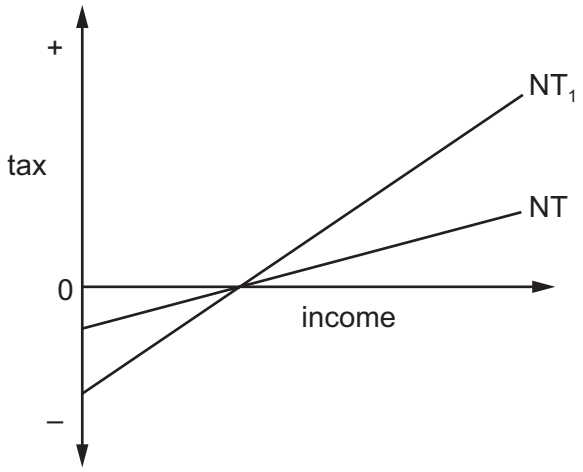
D subsidies for agricultural producers

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17 A country has a negative income tax.

In the diagram, the curve NT shows the country's initial tax schedule.



What could cause the tax schedule to shift to NT_1?

A a higher marginal tax rate

B a more equal distribution of income

C an increase in household disposable income

D an increase in the marginal propensity to consume

18 The information in the table is taken from a country's national income accounts.

	$ million
national income	600
consumer spending	400
investment spending	80
government spending on goods and services	100
exports	140

What is the value of imports?

A $100 million **B** $120 million **C** $140 million **D** $240 million

19 Which represents an injection into a country's circular flow of income?

A corporate taxes

B interest payments on government bonds

C the payment of dividends to foreign shareholders

D the repayment of bank loans

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20 Over one year the money income in an economy increased by 6%. In the same period prices rose by 4%.

What can be concluded from this?

A Real incomes decreased by 2%.

B The velocity of circulation decreased by 2%.

C The money supply increased by 10%.

D The volume of output increased by 2%.

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

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

22 The table shows the figures for consumption, capital formation and depreciation in four economies, all measured in US $.

Assuming that the state of technology remains unchanged, which economy is most likely to experience economic growth?

economy	consumption ($ million)	capital formation ($ million)	capital depreciation ($ million)
A	100	10	20
B	500	200	100
C	1 000	1 200	1 400
D	20 000	5 000	6 000

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23 Gross Domestic Product (GDP) per head is an indicator sometimes used to compare living standards of various countries. GDP is converted into a common currency at market exchange rates.

What might cause this indicator to **exaggerate** the relative position of an individual country?

A a high level of female participation in the labour force

B a high level of foreign ownership in domestic industry

C a high level of subsistence farming

D relatively low hours worked by the labour force

24 In the absence of offsetting changes, what will result in an increase in a government's fiscal deficit?

A a decrease in household saving

B a decrease in interest rates on government bonds

C a decrease in private sector investment

D a decrease in the country's trade deficit

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

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

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

26 What are likely to be the impacts on an economy of increased competition from abroad?

	impact on trade balance	impact on rate of inflation	impact on unemployment rate
A	improve	raise	decrease
B	improve	reduce	decrease
C	worsen	raise	increase
D	worsen	reduce	increase

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27 An economy has underemployed resources.

Which method of financing an increase in government expenditure is likely to have the greatest expansionary effect?

A borrowing from the central bank

B borrowing from the non-bank private sector

C increased direct taxation

D increased indirect taxation

28 The table shows how the government finances its budget deficit in a closed economy.

	$
budget deficit	200 billion
sale of government securities to the central bank	50 billion
sale of government securities to the non-bank private sector	150 billion

If there is no change in notes and coins in circulation and commercial banks maintain a 10% cash reserve ratio, what will be the resulting increase in the money supply?

A $50 billion

B $150 billion

C $200 billion

D $500 billion

29 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

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

What is implied by this proposal?

A Developing countries should become self-sufficient.

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

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

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

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Cambridge International A Level

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ECONOMICS **9708/33**

Paper 3 Multiple Choice (Supplement) **October/November 2015**

1 hour

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

3302824608

READ THESE INSTRUCTIONS FIRST

Write in soft pencil.
Do not use staples, paper clips, 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.

This document consists of **12** printed pages.

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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 To maximise the satisfaction she derives from a given level of expenditure on two goods, X and Y, how should a consumer allocate her expenditure between the two goods?

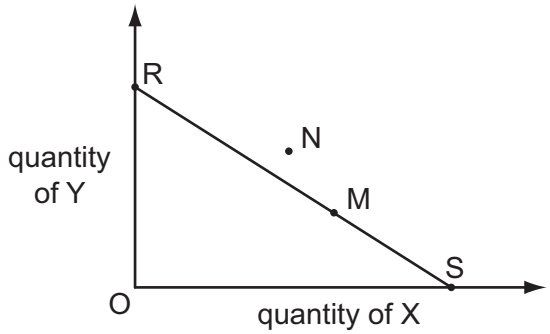
A marginal utility X = marginal utility Y

B marginal utility X × price of X = marginal utility Y

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

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

3 The line RS in the diagram is a consumer's budget line.



The consumer initially chooses the combination of X and Y indicated by point M on his budget line.

He subsequently chooses the combination indicated by point N.

What could explain the change from point M to point N?

A a change in his tastes

B a decrease in the price of X and a bigger percentage increase in the price of Y

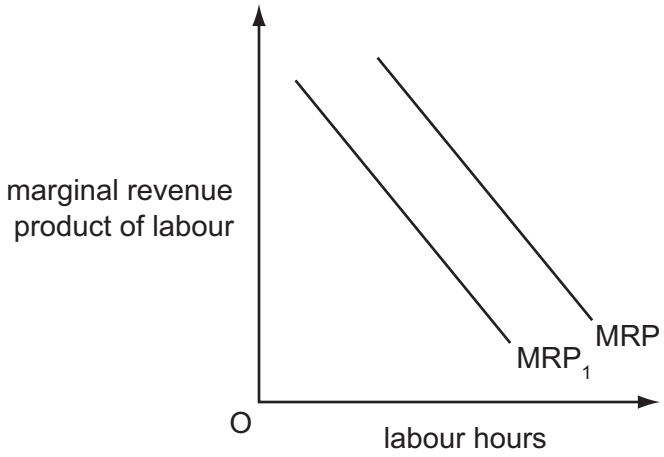
C an increase in the price of X and an increase in his income

D equal percentage increases in his income and in both prices

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4 The diagram shows a firm's initial marginal revenue product of labour curve (MRP).



What could cause the curve to shift to MRP_1?

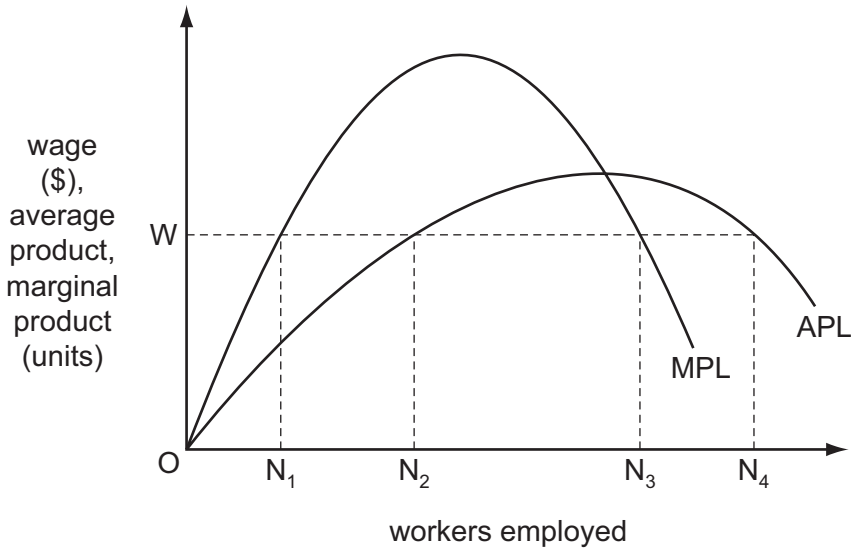
A a cut in the wage rate

B a fall in the price of the final product

C an increase in the wage rate

D a rise in the price of the final product

5 The diagram shows a perfectly competitive firm's average product of labour (APL) and marginal product of labour (MPL) curves.



How many workers will the firm employ at a wage of W?

A ON_1 **B** ON_2 **C** ON_3 **D** ON_4

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6 To increase its labour force from 20 to 21 workers, a firm has to increase the daily wage rate from \$50 to \$52.

What is the marginal cost of labour per day?

A \$42 **B** \$52 **C** \$92 **D** \$1092

7 A firm's long-run production function shows that a 40% increase in its inputs leads to a 20% increase in output.

What is the firm experiencing?

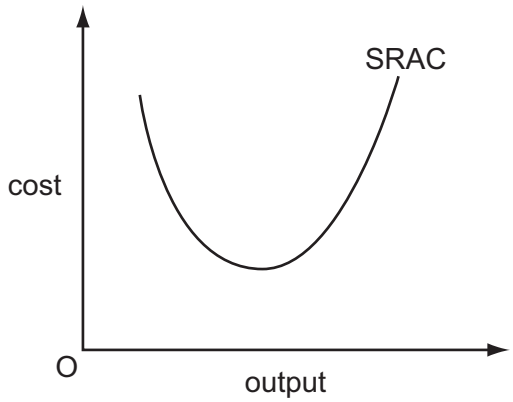
A decreasing returns to scale

B diminishing returns

C increasing returns

D increasing returns to scale

8 The diagram shows a firm's short-run average cost curve.



What explains the shape of the curve?

A the law of variable proportions

B the law of diminishing marginal utility

C fixed costs exceeding variable costs

D technical diseconomies

9 The following schedule gives information about a firm's costs.

total variable costs	\$6400
average fixed costs	\$20
average total costs	\$100

What is the firm's output?

A 32 units **B** 50 units **C** 64 units **D** 80 units

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10 What must a firm do to achieve internal growth?

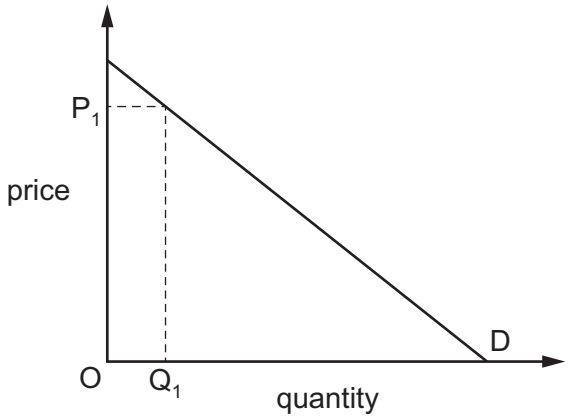
A increase productive capacity

B issue new shares

C launch new products

D retain some of its profits

11 The diagram shows the demand curve for a particular good.



What can be concluded from the diagram?

A Marginal revenue always has a positive value over the whole range of prices.

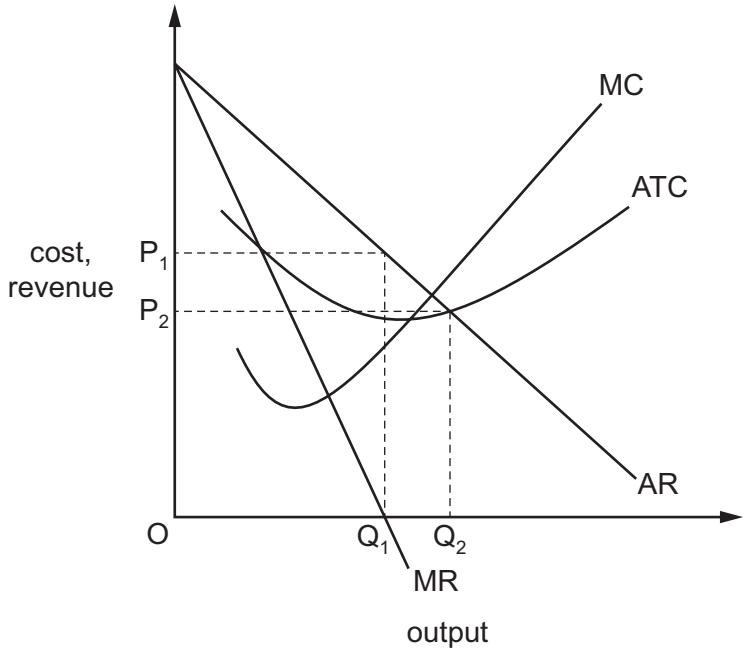
B Marginal revenue is equal to average revenue at P_1.

C The elasticity of demand is constant regardless of the price of the good.

D Total revenue initially increases as price falls from P_1, but at some point it will decrease.

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12 The diagram shows a monopolist's cost and revenue curves.



The monopolist changes its price from P_1 to P_2 and its output from Q_1 to Q_2.

Which change in objective is indicated by the move from P_1 to P_2?

A profit maximisation to sales revenue maximisation

B profit maximisation to sales maximisation subject to earning a normal profit

C sales revenue maximisation to profit maximisation

D sales revenue maximisation to sales maximisation subject to earning a normal profit

13 An industry has an oligopolistic structure, but operates in a market which is highly contestable.

What is most likely to result?

A Collectively, the firms will behave like a monopoly.

B Firms will earn normal profits in the long run.

C Government price regulation will be required to prevent the exploitation of consumers.

D There will be substantial barriers to the entry of new firms.

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

A to meet all the health care demands of the population

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

C to provide free medical treatment

D to secure the maximum health gain from the resources available

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15 What would be most likely to give rise to a conflict between efficiency and equity?

A an increase in government expenditure on health care

B an increase in interest rates

C an increase in subsidies to public transport in congested urban areas

D an increase in the highest rate of income tax

16 Changes to a government's welfare policies reduce the number of people who are eligible for welfare benefits.

Why might these changes reduce income inequalities and the level of poverty?

A Not everyone takes up the benefits for which they are eligible.

B Some benefit recipients misspend the money they receive.

C Those who lose their benefits will have a greater incentive to find employment.

D Those who lose their benefits will pay less tax.

17 The table shows figures from the national income accounts of four countries, expressed in terms of a common currency. There is no government sector and no foreign trade.

Which country enjoys the highest consumption per capita?

	gross national product	gross investment	population
A	90	10	12
B	100	20	10
C	150	10	20
D	220	120	20

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18 The table shows the level of consumption at various levels of national income for a closed economy with no government.

national income ($ million)	consumption ($ million)
20	15
24	18
28	21
32	24
36	27
40	30

What happens to the average and marginal propensities to consume as income increases?

	average propensity to consume	marginal propensity to consume
A	constant	constant
B	falls	constant
C	falls	falls
D	rises	falls

19 In a closed economy with no government, 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 concluded from this information?

A The level of investment is $3 million.

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

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

D The value of the investment multiplier is $1\frac{1}{2}$.

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20 The table shows some data for an economy.

investment ($ million)	exports ($ million)	government expenditure ($ million)	savings ($ million)	imports ($ million)	taxation ($ million)	national income ($ million)
200	100	50	125	62.5	62.5	600
200	100	50	150	75	75	700
200	100	50	175	87.5	87.5	800
200	100	50	200	100	100	900

What is the equilibrium level of national income?

A $600 million **B** $700 million **C** $800 million **D** $900 million

21 What will expand the money supply in an open economy?

A a current account balance of payments deficit

B an increase in the cash reserve ratio of commercial banks

C government borrowing from domestic residents

D government intervention to prevent an appreciation in the foreign exchange value of domestic currency

22 The table shows the figures for consumption, gross capital formation and depreciation in four economies, all measured in US $.

Assuming that the state of technology remains unchanged, which economy is most likely to experience economic growth?

economy	consumption ($ million)	gross capital formation ($ million)	depreciation ($ million)
A	200	40	50
B	500	200	150
C	1 000	1 200	1 400
D	20 000	6 000	6 000

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

A a decrease in the proportion of 18-25 year olds in higher education

B a decrease in the size of the government's budget deficit

C an increase in the size of the labour force

D increased female participation in the labour force

24 Why do economists draw a distinction between economic development and economic growth?

A because a country's stage of economic development depends on its level of output rather than its growth rate

B because it is the allocation rather than the overall level of a country's resources which determines its economic well-being

C because of the concern about quality of life rather than quantity of output

D because the prime determinant of economic development is investment rather than consumption

25 A fall in aggregate demand results in a rise in the number of full-time workers who are unemployed.

What is the most likely direct consequence?

A a deterioration in the country's balance of trade

B an influx of workers from abroad

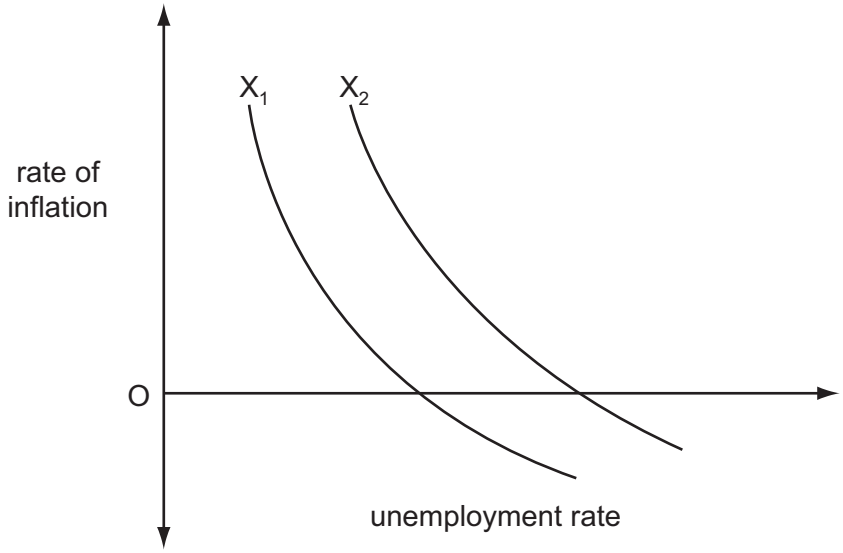
C a rise in the government's budget deficit

D a rise in the rate of inflation

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26 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 an increase in the natural rate of unemployment

B a decrease in the money supply

C the expectation of a decrease in the inflation rate

D an increase in the rate of interest

27 According to Keynesian theory, what will cause the rate of interest to rise?

A a decrease in liquidity preference

B a decrease in the level of national income

C a decrease in the rate of investment

D a decrease in the supply of money

28 In an economy operating below full employment, which combination of changes will definitely result in a decrease in national income?

A a fall in government expenditure together with a rise in the propensity to import

B a fall in the rate of taxation together with a rise in the saving rate

C a rise in investment expenditure together with a rise in the rate of taxation

D a rise in the propensity to consume together with a rise in the rate of taxation

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29 What could be expected to increase the pressure of demand-pull inflation in an open economy?

A an appreciation of the foreign exchange rate

B an increase in interest rates

C an increase in sales taxes

D an increase in the budget deficit

30 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

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