Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/31**

Paper 3 Multiple Choice **October/November 2016**

1 hour 15 minutes

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

8817558115

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.

IB16 11_9708_31/4RP
© UCLES 2016

1 How is net external benefit calculated?

A external benefit minus external cost

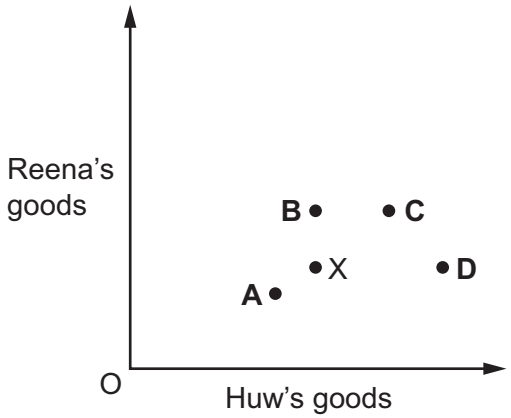
B external benefit plus private benefit

C private benefit plus social benefit

D social benefit minus private cost

2 The diagram shows the distribution of goods between two individuals in a two-person economy with given technology and resources. The economy is located at point X.

According to the Pareto criterion, which point would definitely **not** increase allocative efficiency?



3 What would be one indicator of productive inefficiency in an economy?

A an excess of imports over exports

B prices in excess of marginal costs

C rationing of certain goods and services

D unemployment due to deficient aggregate demand

4 What is equal at all points along an indifference curve for an individual consumer?

A marginal expenditure

B marginal utility

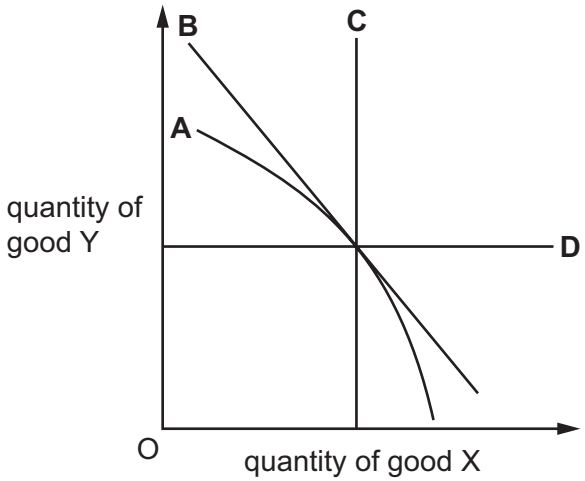
C total expenditure

D total utility

© UCLES 2016

5 The diagram shows four unusual indifference curves.

Which curve indicates that the goods are perfect substitutes for the consumer?



6 What is most likely to indicate that a firm is run in the interests of management rather than the owners?

A the financing of investment largely by the issue of bonds

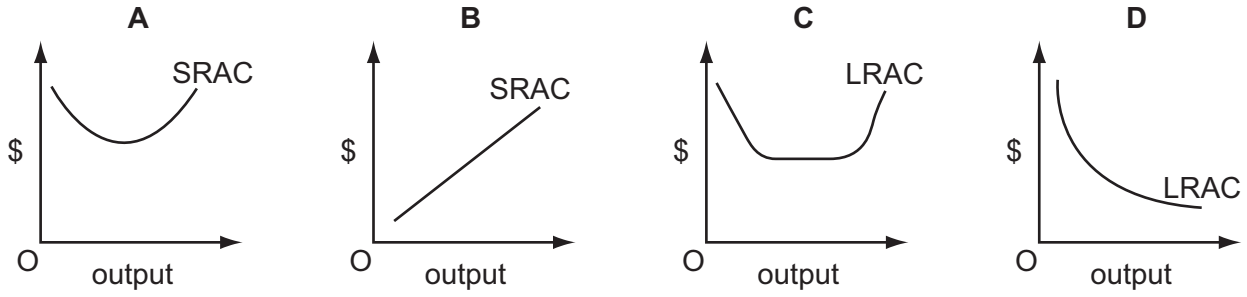
B the opportunity for managers to buy shares at a reduced price

C the payment of high dividends to shareholders

D the presence of 'X' inefficiency

7 The diagrams show four average cost curves.

Which curve illustrates diseconomies of scale over a range of output?



8 What is **least** likely to be the reason why a firm seeks to grow?

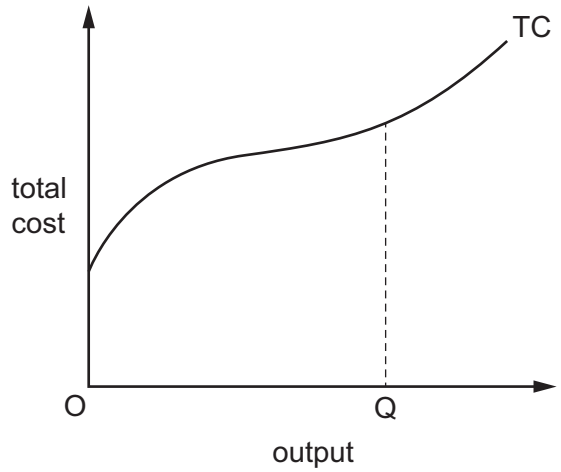
A to improve management control and co-ordination

B to reduce costs by exploiting economies of scale

C to satisfy the ambitions of senior management

D to secure greater pricing power by increasing its market dominance

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



What is minimised at output OQ?

A average fixed cost

B average total cost

C average variable cost

D marginal cost

10 The table shows a firm's total and marginal cost.

output	total cost $	marginal cost $
1	150	30
2	165	15
3	175	10
4	190	15
5	210	20

What is the average fixed cost of producing 6 units?

A 20 **B** 30 **C** 120 **D** 150

© UCLES 2016

11 A firm operates in a contestable market.

How is the firm likely to decide on the price of its product?

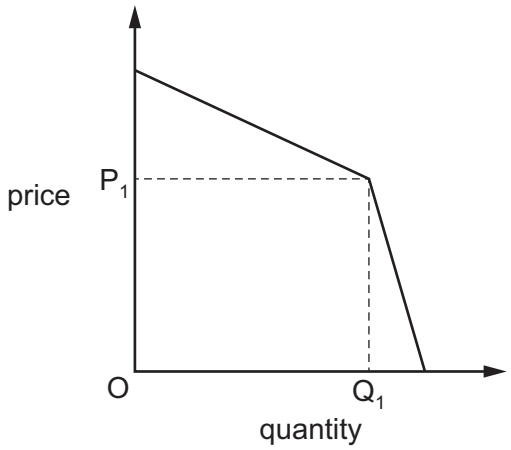
A It will set a price equal to minimum average cost.

B It will set a price to deter the entry of new firms.

C It will set a price to maximise its revenue.

D It will set a price to maximise sales in the short run.

12 The diagram shows the demand curve faced by an individual firm in an oligopolistic industry.



What explains the shape of the curve?

A lack of productive capacity at output levels greater than Q_1

B the ability of the firm to practise price discrimination

C the absence of barriers to new firms entering the industry

D the response of rival firms to changes in its price

13 How does monopolistic competition differ from perfect competition?

A Average revenue can be greater than average cost in the long run.

B Average revenue can be greater than average cost in the short run.

C Products are differentiated.

D There are barriers to entry.

14 Which measure to reduce the abuse of monopoly power is an example of regulation?

A legislation to forbid price fixing by cartels

B removal of import tariffs

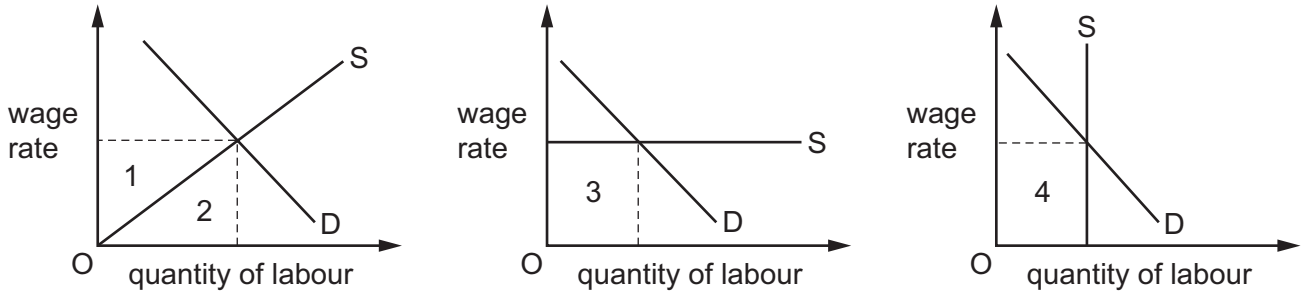
C subsidising small firms

D taxation of monopoly profits

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	no	no	no
B	no	no	yes
C	yes	yes	no
D	yes	yes	yes

16 The diagrams show the demand for and supply of labour.



Which two areas represent transfer earnings?

A 1 and 3 **B** 1 and 4 **C** 2 and 3 **D** 2 and 4

17 A firm is faced with a shortage of labour. It decides to introduce its own training scheme for school leavers.

What effect is this most likely to have on the firm?

A a decrease in the number that it employs

B a decrease in the productivity of its workforce

C an increase in the geographical mobility of its labour

D a shift of the supply curve for its labour to the right

© UCLES 2016

18 Recently, among European countries the Netherlands had the highest percentage of part-time employees and an average working week for all employees of 32 hours. Greece had a smaller percentage of part-time employees but an average working week for all employees of 41 hours.

Which conclusion may be drawn from this information?

A Greece has a higher percentage of its workforce in full-time employment than the Netherlands.

B On average part-time employees work longer in Greece than in the Netherlands.

C The average working week in Greece for full-time employees is longer than in the Netherlands.

D There are more part-time employees in the Netherlands than in Greece.

19 What is the most likely reason that a rise in the savings ratio of a country may increase its rate of development in the long run?

A It would encourage a shift of resources from the secondary to the primary sector.

B It would free resources for the production of capital goods.

C It would increase the level of international trade.

D It would increase the rate of interest.

20 Which of the following is the most accurate statement about developing economies?

A A dependence on primary products for export revenues means that developing countries are reliant on the industrialised world for their economic performance.

B High levels of capital per head mean that they must rely on overseas trade if they are to achieve higher growth rates.

C High real GDP per head, plus high rates of population growth, reduce their ability to increase their standard of living.

D Migration of labour from rural to urban areas is of significance only if it results in labour shortages in the rural economy.

© UCLES 2016

21 The table shows government net lending for four countries in two years.

	government net lending (% of GDP)	
	2005	2010
Finland	2.7	–2.8
Italy	–4.5	–4.5
Korea	3.4	1.3
Switzerland	–1.1	0.3

Which country had the highest increase in government borrowing as a percentage of its GDP between 2005 and 2010?

A Finland

B Italy

C Korea

D Switzerland

22 The table shows the levels of consumption expenditure and savings for given family incomes.

disposable family income ($)	consumption expenditure ($)	savings ($)
2000	2150	–150
3000	3100	–100
4000	4000	0
5000	4850	150
6000	5650	350
7000	6380	620

Over the range of disposable income shown, as income rises what happens to the marginal propensity to save?

A It falls and then rises.

B It falls continuously.

C It rises and then falls.

D It rises continuously.

© UCLES 2016

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

A a government budget surplus

B bank loans to private companies

C foreign direct investment in the economy

D the sale of assets by the country's households

24 In a closed economy with no government sector the multiplier shows the impact of a change in

A consumption on investment.

B investment on national income.

C national income on consumption.

D national income on investment.

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

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

26 An increase in which of the following would lead to an immediate increase in national expenditure?

A interest rates

B private sector investment

C the budget surplus

D the savings ratio

27 Which indicator is **least** likely to be used when measuring the comparative economic development of an economy?

A adult literacy rate

B average life expectancy at birth

C level of real GNP per head

D size of population

28 Which would be most likely to result in an increase in the number of new small firms?

A an increase in company tax

B an increase in interest rates

C an increase in redundancy rates

D an increase in unemployment benefits

29 To increase the level of employment in the upturn of the trade cycle, a government pursues an expansionary economic policy.

What explains the resulting overheating of the economy?

A the emergence of supply bottlenecks

B the Laffer curve principle

C the operation of automatic stabilisers

D the underemployment of labour

30 What is most likely to decrease as a result of a fall in interest rates in a country?

A company profits

B household saving

C the level of share prices

D the outflow of short-term capital

© UCLES 2016

BLANK PAGE

BLANK PAGE

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

To avoid the issue of disclosure of answer-related information to candidates, all copyright acknowledgements are reproduced online in the Cambridge International Examinations Copyright Acknowledgements Booklet. This is produced for each series of examinations and is freely available to download at www.cie.org.uk after the live examination series.

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

Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/32**

Paper 3 Multiple Choice **October/November 2016**

1 hour 15 minutes

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

* 0 9 2 9 3 0 9 4 7 4 *

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 **11** printed pages and **1** blank page.

© UCLES 2016

CAMBRIDGE International Examinations

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

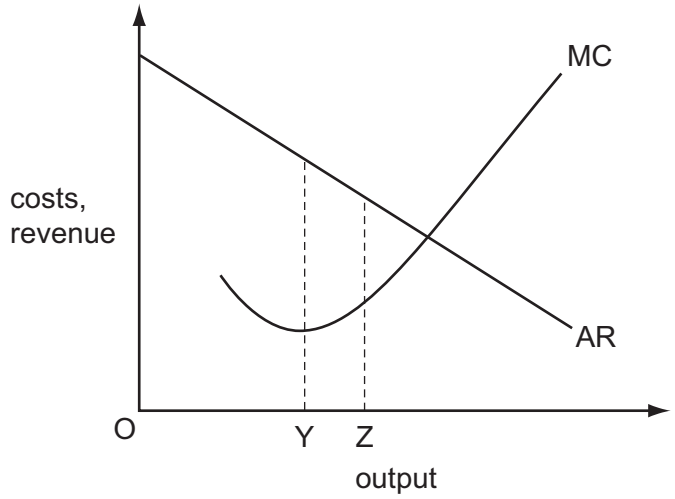
A to achieve full employment

B to achieve the cheapest possible price for products

C to ensure resources are not wasted

D to use as many resources as possible

2 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.

3 A proposal for a new power station was rejected by the government because it was not socially beneficial.

The government calculated that the private costs would be $800 m, private benefits $900 m and external benefits $300 m.

What must have been true about the external costs of the power station?

A External costs were equal to external benefits.

B External costs were greater than $400 m.

C External costs were less than external benefits.

D There were no external costs.

© UCLES 2016

4 What will happen if, in response to a fall in its price, a consumer buys more of a good?

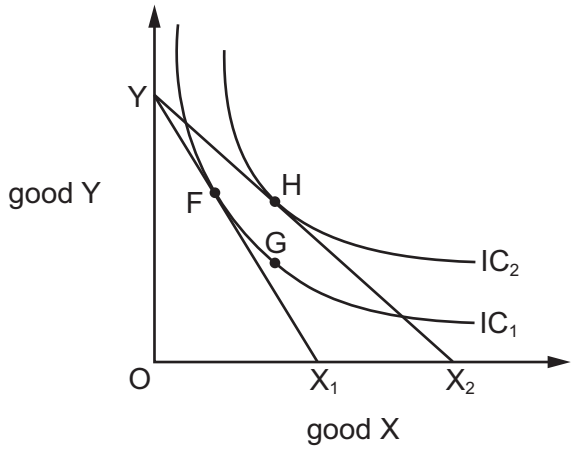
A a fall in the total utility derived from consuming the good

B a movement along the consumer's demand curve

C a rise in the marginal utility derived from consuming the good

D a shift in the consumer's demand curve

5 The diagram shows two indifference curves and two budget lines for goods X and Y.



The consumer's initial position is at point F. The consumer's preferred final position becomes point H.

What does the movement from F to G represent?

A the income effect of a price fall for X

B the price effect of a price change for X

C the substitution effect of a price fall for X

D the substitution effect of a price rise for X

6 What is one of the long-term benefits to a firm of vertical integration?

A a concentration on activities in which the firm has a comparative advantage

B a reduction in the total costs involved in agreeing contracts with other firms

C an increase in the firm's market share

D improvements in efficiency resulting from increased use of market incentives

7 The organisers of a major sporting event produce official souvenir products. Cheaper unofficial souvenirs are also produced by street traders who sell them to people walking to the event.

Of what is this an example?

A a contestable market

B perfect competition

C price discrimination

D price leadership

8 Which assumption is made in calculating a firm's short-run production function?

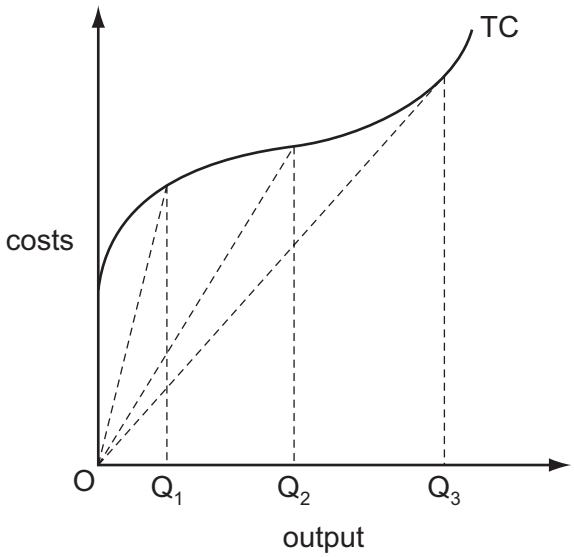
A All factors of production are fixed.

B All factors of production are variable.

C The state of technology is fixed.

D The state of technology is variable.

9 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.

© UCLES 2016

10 The table shows the total cost of a firm.

output	total cost $
0	40
1	55
2	60
3	65
4	80

What is the average variable cost of producing 4 units of output?

A $10 **B** $15 **C** $20 **D** $40

11 Which condition must apply before a market can be regarded as perfectly contestable?

A All firms in the industry are price-takers.

B All firms in the industry produce an identical product.

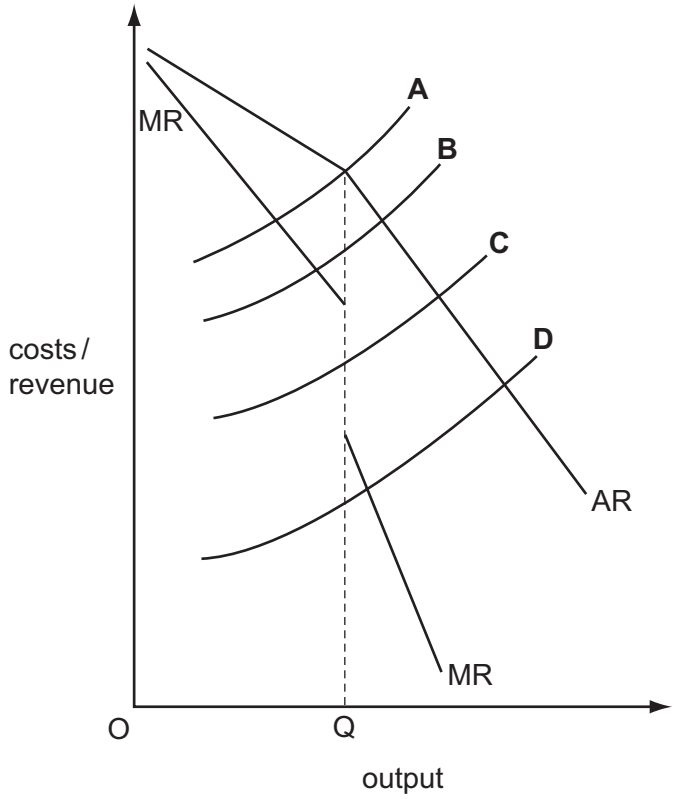
C There are a large number of firms in the industry.

D There are zero costs of entry to, and exit from, the industry.

© UCLES 2016

12 The diagram shows the average and marginal revenue curves of an oligopolistic firm. OQ is the profit-maximising output.

Which curve could be the firm's marginal cost curve?



13 What is most likely to be found when comparing the long-run equilibrium outcome in monopolistic competition with that in perfect competition?

A a greater degree of excess capacity in monopolistic competition

B a higher level of profit in monopolistic competition

C a larger number of firms in monopolistic competition

D a more price-elastic demand curve in monopolistic competition

14 Which is **not** a source of market failure?

A imperfect information

B income inequality

C monopoly

D non-excludability

© UCLES 2016

15 The government wants to regulate the consumption of a demerit good in order to increase society's net welfare.

In which situation will society's net welfare increase?

A The fall in the marginal social benefit is greater than the fall in the marginal social cost.

B The fall in the marginal social cost is greater than the fall in the marginal social benefit.

C The fall in the total social benefit is greater than the fall in the total social cost.

D The fall in the total social cost is greater than the fall in the total social benefit.

16 Which measure is **least** likely to help a household out of the poverty trap?

A changing a universal benefit to a means-tested benefit

B increasing the threshold at which income tax is paid

C introducing a national minimum wage

D reducing the basic rate of income tax

17 'The addition to revenue which results from employing one additional unit of a factor of production, the quantities of all other factors of production remaining constant'.

What does this define?

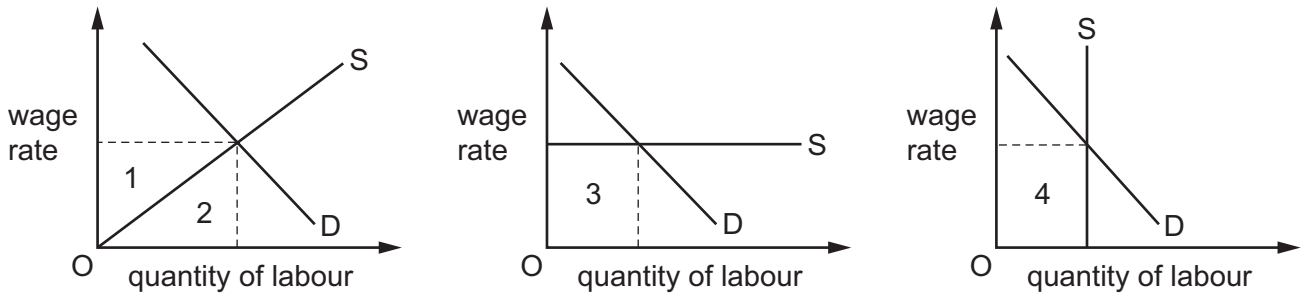
A marginal factor cost

B marginal revenue

C marginal revenue product

D the law of diminishing returns

18 The diagrams show the demand for and supply of labour.



Which two areas represent economic rent?

A 1 and 3 **B** 1 and 4 **C** 2 and 3 **D** 2 and 4

19 The table shows the short-run production function of a firm with labour as the variable factor of production.

number of workers employed	total output per day
1	10
2	20
3	40
4	50
5	60

If workers are hired in a perfectly competitive labour market at a wage rate of $50 per day, when will the labour cost per unit of output be at its lowest?

A 2 workers

B 3 workers

C 4 workers

D 5 workers

20 Over a given period the amount of overtime worked in manufacturing industry increases.

What is likely to be a consequence of this?

A a decrease in employment

B a decrease in the rate of inflation

C a more rapid growth in average earnings than in hourly wage rates

D a more rapid growth in manufacturing output than in productivity

21 What is a common characteristic of developing economies?

A a relatively small agricultural sector

B extensive underemployment

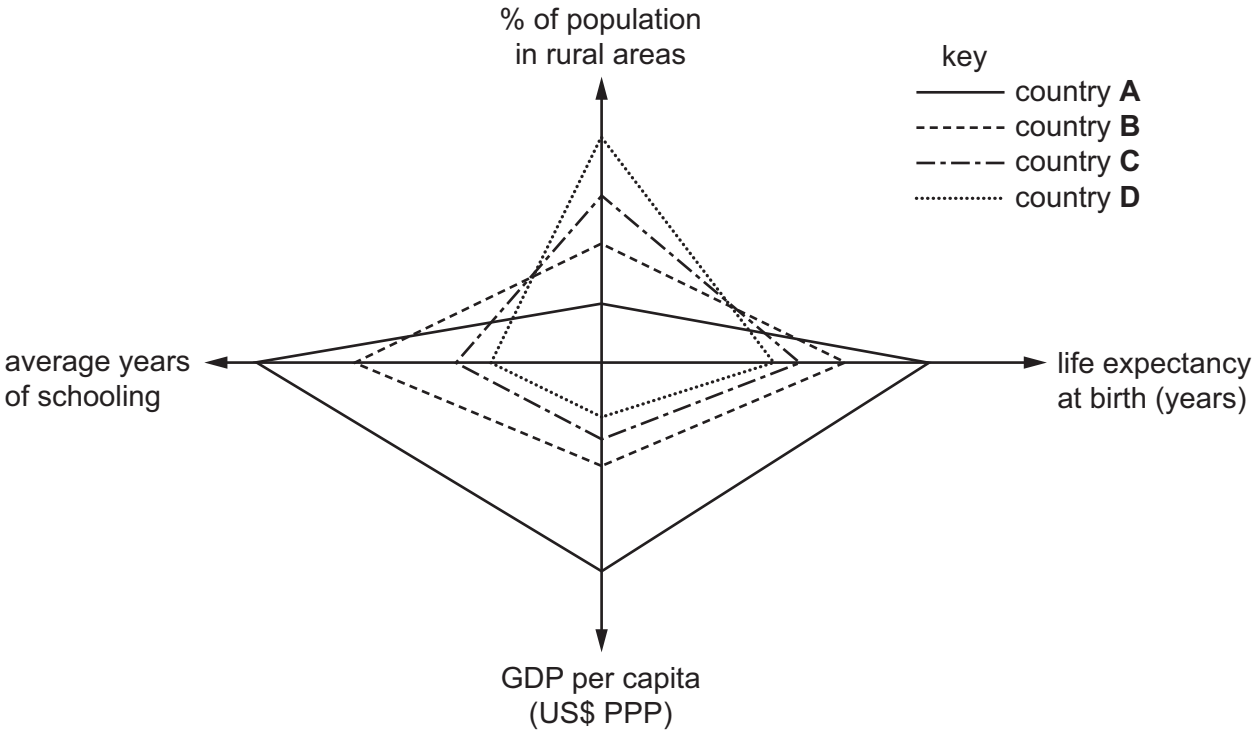
C high saving rates

D stable export earnings

© UCLES 2016

22 The diagram shows data on various aspects of four countries.

Which country is likely to be **least** developed?



23 If the marginal propensity to consume in an economy in a given period becomes greater than unity, this must mean that

A consumers will be spending more than they are earning.

B inflation will be generated in the economy.

C the country will suffer a trade deficit.

D the marginal propensity to save will be negative.

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

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

25 The table shows the levels of consumption expenditure and savings for given family incomes.

disposable family income ($)	consumption expenditure ($)	savings ($)
2000	2150	–150
3000	3100	–100
4000	4000	0
5000	4850	150
6000	5650	350
7000	6380	620

Over the range of disposable income shown, as income rises the marginal propensity to consume

A falls and then rises.

B falls continuously.

C rises and then falls.

D rises continuously.

26 What would cause an increase in the transactions demand for money?

A a fall in the price of bonds

B an increase in nominal national income

C an increase in the rate of interest

D an increase in unemployment

27 Government economic advisers disagree over the relative impact of fiscal and monetary controls.

What is most likely to be the first stage at which a time lag will occur?

A in the introduction of the chosen policy

B in the operational effectiveness of the policy

C in the recognition of the existence of the problem

D in the selection of the appropriate policy

© UCLES 2016

28 What has **not** accompanied global economic growth over the last twenty five years?

A a depletion of non-renewable resources

B decreased international trade

C growing urbanisation

D increased atmospheric pollution

29 Which policy pursued by a central bank represents a contractionary monetary policy?

A a reduction in the interest rate at which it will lend to banks

B a reduction in the minimum cash to deposit ratios of banks

C the purchase of foreign currency to influence the country's exchange rate

D the sale of government bonds in the open market

30 Which policy's principal aim is to ensure sound public finances?

A environmental policy

B fiscal policy

C monetary policy

D supply-side policy

© UCLES 2016

BLANK PAGE

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

To avoid the issue of disclosure of answer-related information to candidates, all copyright acknowledgements are reproduced online in the Cambridge International Examinations Copyright Acknowledgements Booklet. This is produced for each series of examinations and is freely available to download at www.cie.org.uk after the live examination series.

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

Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/33**

Paper 3 Multiple Choice **October/November 2016**

1 hour 15 minutes

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

1008695788

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.

IB16 11_9708_33/3RP
© UCLES 2016

1 Which equation is correct?

A Private benefit equals social benefit minus net external benefit.

B Private cost equals social cost minus net private benefit.

C Social benefit equals net private benefit plus net private cost.

D Social cost equals private cost plus external cost.

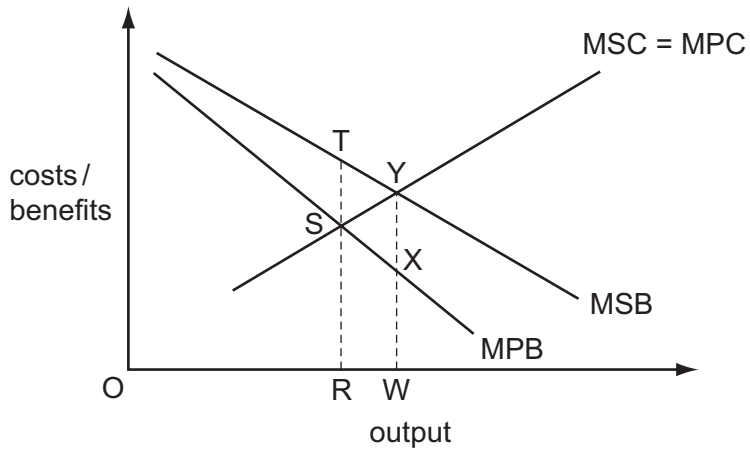
2 The government has to choose the best of four routes to build a new railway line.

The benefits and costs of each are shown in $m in the table.

Which route would be chosen?

	private benefit	external benefit	private cost	external cost
A	600	600	100	150
B	700	600	150	200
C	800	500	100	150
D	900	700	200	300

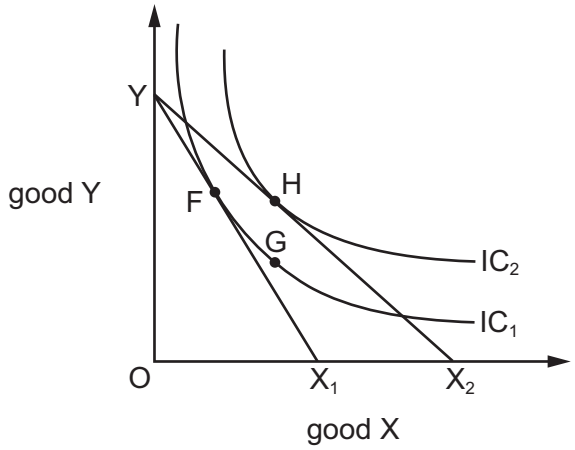
3 A government is planning to intervene in a market to fix output at the socially desirable level by giving a subsidy.



To achieve its objective, what should be the subsidy per unit?

A ST **B** SX **C** TY **D** XY

4 The diagram shows two indifference curves and two budget lines for goods X and Y.



The consumer's preferred final position becomes point H.

What does the movement from G to H represent?

A the income effect of a price fall for X

B the price effect of a price change for X

C the substitution effect of a price fall for X

D the substitution effect of a price rise for X

5 Which act of purchase or consumption is most likely to illustrate the law of diminishing marginal utility?

A the final course of an 'eat all you can' banquet to end an evening out

B the last coin to complete an enthusiast's coin collection

C the second of the two rolls of wallpaper needed to decorate a room

D the tenth driving lesson needed to enable a learner to pass the driving test

6 Why might an industry consist mainly of small firms?

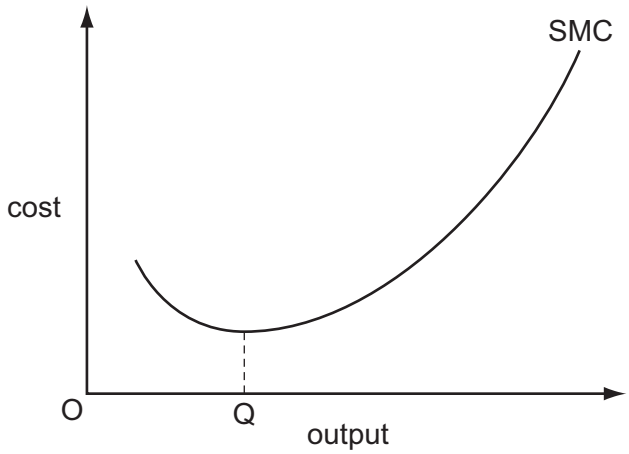
A Diseconomies of scale occur at a low level of output.

B Government policy encourages horizontal integration.

C Integration is impossible.

D There is an international market for the product.

7 The diagram shows a firm's short-run marginal cost curve.



What explains why the curve is upward sloping at output levels above OQ?

A diseconomies of scale

B inelasticity of supply

C rising fixed costs

D the law of variable proportions

8 The table shows average total cost and marginal cost for a firm in perfect competition for a range of output.

output	1	2	3	4	5
average total cost $	12	7.5	6	5.25	4.8
marginal cost $	3	3	3	3	3

What can be concluded from the above information?

A The firm is operating with diseconomies of scale.

B The firm's average variable cost is constant.

C The firm's fixed costs are $12.

D The firm's revenue will not cover cost for this output.

9 What is an example of the principal-agent problem?

A the disincentive effect for entrepreneurs of high government tax rates

B the existence of a trade union to put forward workers' views to managers

C the lack of consumer knowledge of the quality of firms' products

D the separation of the owners of a firm from the firm's managers

© UCLES 2016

10 A firm in monopolistic competition increases its expenditure on marketing its product.

What will it **not** be able to achieve as a result?

A a higher long-run profit

B a higher selling price

C a more differentiated product

D a more inelastic demand

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

What does this describe?

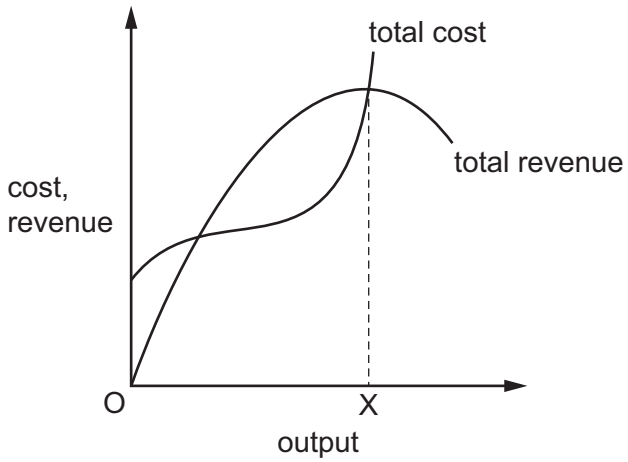
A a contestable market

B a monopoly

C monopolistic competition

D perfect oligopoly

12 The diagram shows cost and revenue of a monopoly that decides to produce at OX.



What can definitely be confirmed as the firm's aim?

A growth rate maximisation

B long-run profit maximisation

C sales revenue maximisation

D short-run profit maximisation

13 What is most likely to be the reason why monopolistically competitive firms are able to influence price?

A The firms in the industry are able to prevent the entry of new firms when abnormal profits are earned.

B The firms produce where average costs are falling and so experience excess capacity.

C The output is where marginal revenue exceeds average revenue.

D The products are differentiated and so are not perfect substitutes.

14 What could **not** justify state intervention in an economy on grounds of 'market failure'?

A monopoly supply of certain goods

B pollution of rivers

C the existence of large-scale poverty

D the existence of public goods

15 Governments consider both efficiency and equity in deciding microeconomic policy.

What statement about the resulting decisions is correct?

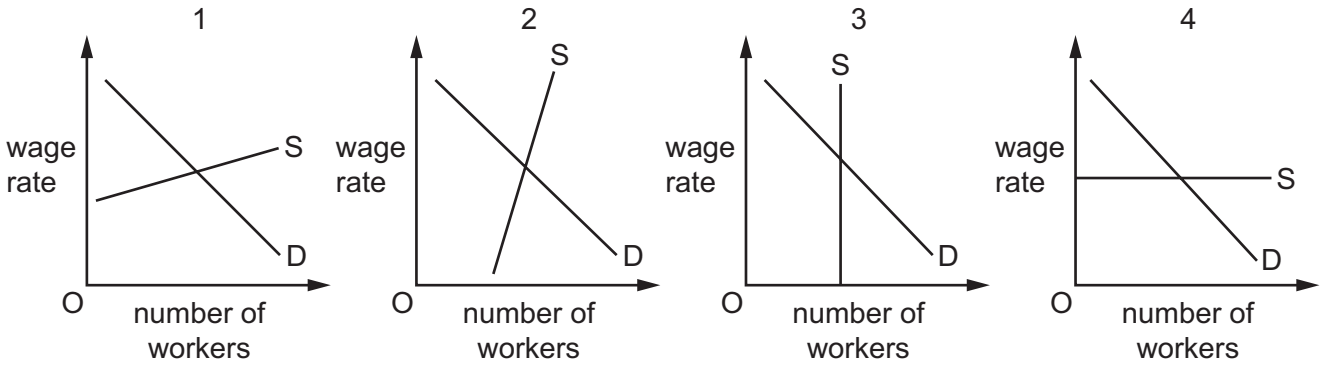
A An economically inefficient outcome is certain to be inequitable.

B Both efficiency and equity decisions are based on positive economic judgements.

C Equity can only be achieved when incomes are redistributed equally.

D The creation of an equitable situation may increase economic efficiency.

16 The diagrams show the demand for and supply of labour in four markets.

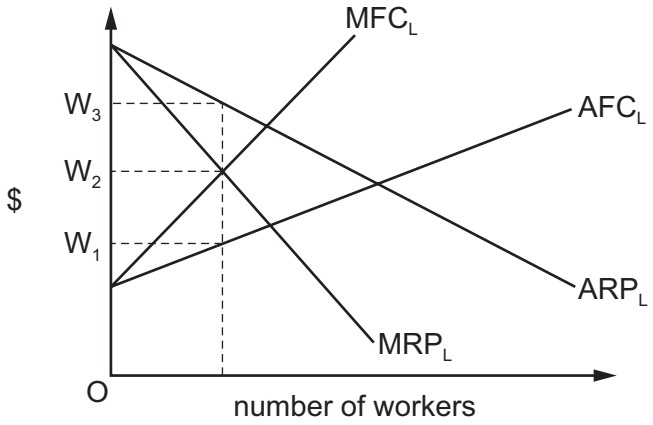


In which markets would labour's transfer earnings exceed its economic rent?

A 1 and 2 **B** 1 and 4 **C** 2 and 3 **D** 3 and 4

17 In the diagram, the ARP_L curve is the average revenue product curve of labour of a profit-maximising monopsonist and the MRP_L is the marginal revenue product of labour curve.

The curves AFC_L and MFC_L are the firm's average and marginal factor cost curves.



What is a likely outcome if a trade union negotiated a different wage from the original market wage?

	original market wage	possible range of new wage	effect on employment
A	W_1	W_1–W_2	increase
B	W_1	W_2–W_3	increase
C	W_2	W_2–W_3	decrease
D	W_3	W_1–W_3	decrease

18 What would be likely to reduce the mobility of labour between a depressed and a prosperous region of a country?

A a developed market in rented accommodation in the prosperous region

B a high rate of job turnover in the prosperous region

C the setting of wages at a national level

D the withdrawal of a statutory minimum wage

19 The increase in a country's labour productivity exceeds the increase in its real national output.

What could explain this?

A a decrease in employment

B a deficit in the balance of trade

C an increase in real wages

D an increase in the rate of inflation

© UCLES 2016

20 The table shows the annual percentage (%) change in China's GDP and the contribution of some of its component parts between 2006 and 2012.

	2006	2007	2008	2009	2010	2011	2012
GDP	12.7	14.2	9.6	9.2	10.4	9.3	7.7
consumption	5.1	5.6	4.2	4.6	4.5	5.2	4.2
investment	5.5	6.0	4.5	8.1	5.5	4.5	3.9
net exports	2.1	2.6	0.9	–3.5	0.4	–0.4	–0.4

What can be concluded about China's economy between 2006 and 2012?

A China's current account was in surplus more years than it was in deficit.

B China's economic rate of growth fell in more years than it rose.

C China's growth was greater overall in consumer goods than in capital goods.

D China's standard of living rose at a decreasing rate.

21 What has been a common economic factor in countries that have developed rapidly in recent years?

A decreased population

B increased emphasis on government planning

C increased openness to international trade and investment

D increased unemployment

22 National income statistics show that real GDP per head is 25% higher in country X than in country Y.

Why might this difference exaggerate the gap in average living standards between the two countries?

A Country X has a higher rate of inflation than country Y.

B Country X has a larger population than country Y.

C The proportion of services that people provide for themselves is higher in country Y.

D The proportion of the country's industry owned by foreign firms is higher in country Y.

23 What might help improve economic growth in developing countries over the next five years?

A an increase in income tax

B an increase in the birth rate

C an increase in the budget surplus

D an increase in training

© UCLES 2016

24 Which explains how changes in national income may be brought about by changes in investment?

A the acceleration principle

B the investment function

C the marginal efficiency of capital

D the theory of the multiplier

25 In a closed economy with no government, the equilibrium level of income occurs where

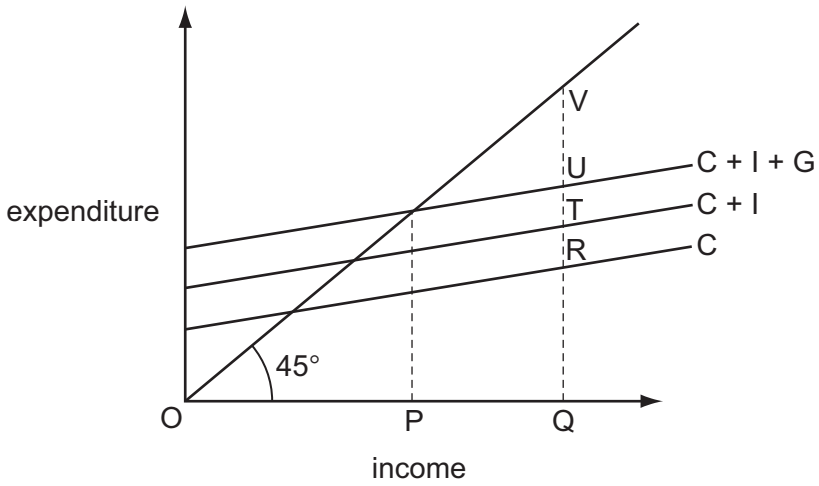
A planned consumption is equal to desired investment.

B planned consumption is equal to desired savings.

C planned investment is equal to desired savings.

D planned savings plus desired investment is equal to consumption.

26 In the diagram, OP is the equilibrium level of income and OQ the full employment level of income in a closed economy.



What is the deflationary gap?

A PQ **B** RV **C** TV **D** UV

27 Which is most likely to cause an increase in a country's money supply?

A a balance of payments surplus

B a government budget surplus

C cash withdrawals by commercial bank depositors

D the recall of loans by the commercial banks

28 Unemployment in an economy increases.

What is a probable consequence?

A a switch from direct to indirect taxation

B an increase in demand-pull inflation

C an increase in the balance of trade deficit

D an increase in the government budget deficit

29 Other things being equal, what is likely to result from a decrease in interest rates?

A a decrease in investment

B a net capital inflow

C an appreciation of the currency

D an increase in consumption

30 In the absence of offsetting factors, how will an increase in interest rates affect share prices?

A It will decrease share prices because financial investors will prefer to purchase bonds.

B It will decrease share prices because inflationary pressure will increase.

C It will increase share prices because company profits will rise.

D It will increase share prices because saving will become less attractive.

© UCLES 2016

BLANK PAGE

BLANK PAGE

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

To avoid the issue of disclosure of answer-related information to candidates, all copyright acknowledgements are reproduced online in the Cambridge International Examinations Copyright Acknowledgements Booklet. This is produced for each series of examinations and is freely available to download at www.cie.org.uk after the live examination series.

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