UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Advanced Level

ECONOMICS **9708/31**

Paper 3 Multiple Choice (Supplement) **May/June 2010**

1 hour

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

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READ THESE INSTRUCTIONS FIRST

Write in soft pencil.
Do not use staples, paper clips, highlighters, glue or correction fluid.
Write your name, Centre number and candidate number on the Answer Sheet in the spaces provided unless this has been done for you.

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

Read the instructions on the Answer Sheet very carefully.

Each correct answer will score one mark. A mark will not be deducted for a wrong answer.
Any rough working should be done in this booklet.

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1 Which is a correct statement about efficiency?

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 diagram shows the marginal utility (MU) that an individual derives from a good at different levels of consumption.



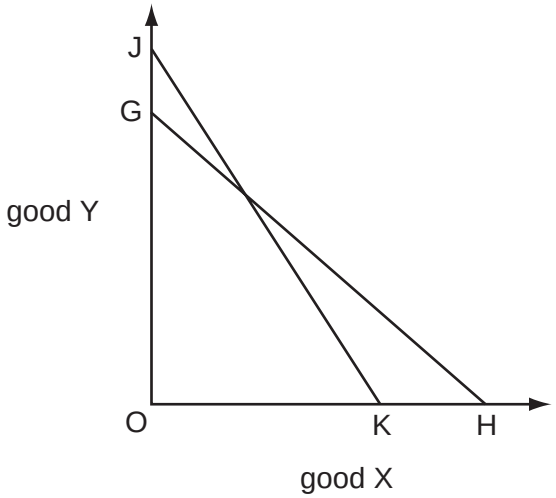
The utility he derives from the last $ he spends on every good is 3 units.

Assuming the marginal utility of money is constant, which quantity will he purchase if the price of the good is $10?

A 4 kilos **B** 5 kilos **C** 6 kilos **D** 7 kilos

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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.

4 What could cause the demand curve for labour to shift to the left?

A a decrease in immigration

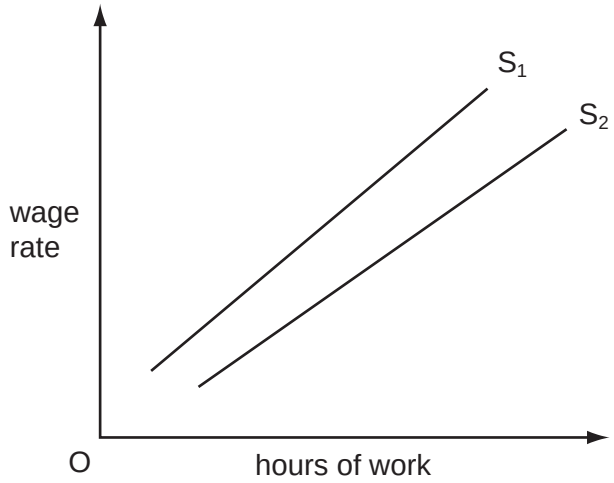
B a decrease in labour productivity

C a fall in real wages

D a rise in the money wage rate

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5 In the diagram S_1 is an individual worker's supply of labour curve.



What could cause the curve to shift from S_1 to S_2?

A a decrease in the hourly wage rate

B a decrease in work satisfaction

C a decrease in the opportunity cost of leisure

D a decreased preference for leisure

6 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.

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

units of X	1	2	3	4	5
marginal cost ($)	40	30	30	60	120

Given that the total fixed cost is $20, what level of output minimises average total cost?

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

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8 Which is an example of an external diseconomy?

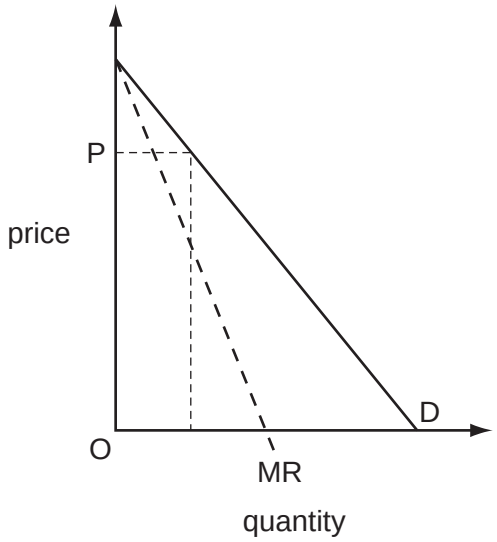
A difficulties in co-ordinating activities in a large organisation

B difficulties in motivating workers in a large organisation

C higher transport costs as a firm's market expands

D increased traffic congestion as industries expand

9 The diagram shows a firm's demand curve and its marginal revenue curve.



What is the approximate price elasticity of demand at price OP?

A 0.25 **B** 0.5 **C** 1 **D** 2

10 In the absence of regulation, why is it likely that the market for air travel on the Singapore-Sydney route would be highly contestable?

A An airline entering the market would lose little if it later exited that market.

B The airline industry's capacity to expand its operations in the short-run is limited.

C The demand for air travel on the Singapore-Sydney route is price-elastic.

D There is no effective substitute for air travel for journeys between Singapore and Sydney.

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11 The table shows information about a profit-maximising firm.

output	17 000 units
price per unit	$1.75
fixed costs	$10 000
variable costs per unit	$1.70

What should the firm do?

A close down immediately because it is not covering its fixed costs

B close down immediately because it is not covering its average costs

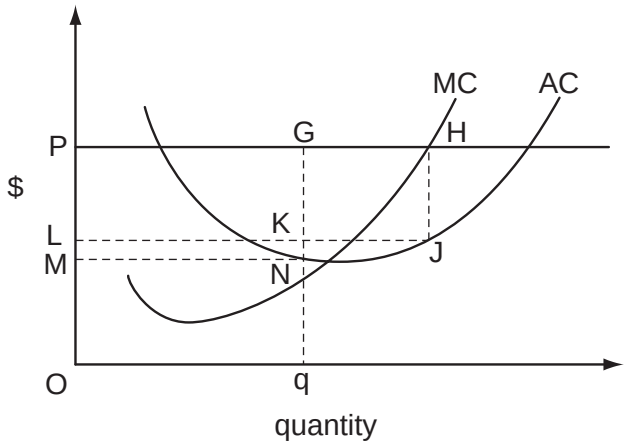
C close down immediately because it is not covering its total costs

D continue production in the short run because it is covering its variable costs

12 The diagram shows a firm's marginal and average cost curves.

The firm enters a collusive agreement with other firms in the industry. It is agreed that each firm will charge a common price, OP, and will restrict the level of its output to a production quota set by the industry cartel.

The firm is allocated a production quota, Oq.



The firm decides to cheat in order to maximise its profits.

What is its short-run increase in profits?

A PGKL

B PHJL

C PHJL minus PGNM

D PGKL minus LKNM

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13 A competitive market becomes a monopoly.

What is likely to happen?

A Consumer surplus will be reduced by the amount of the deadweight loss.

B Producer surplus will be reduced by the amount of the deadweight loss.

C The loss in consumer surplus will be balanced by the increase in producer surplus.

D There will be a transfer of surplus from consumer to producer.

14 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

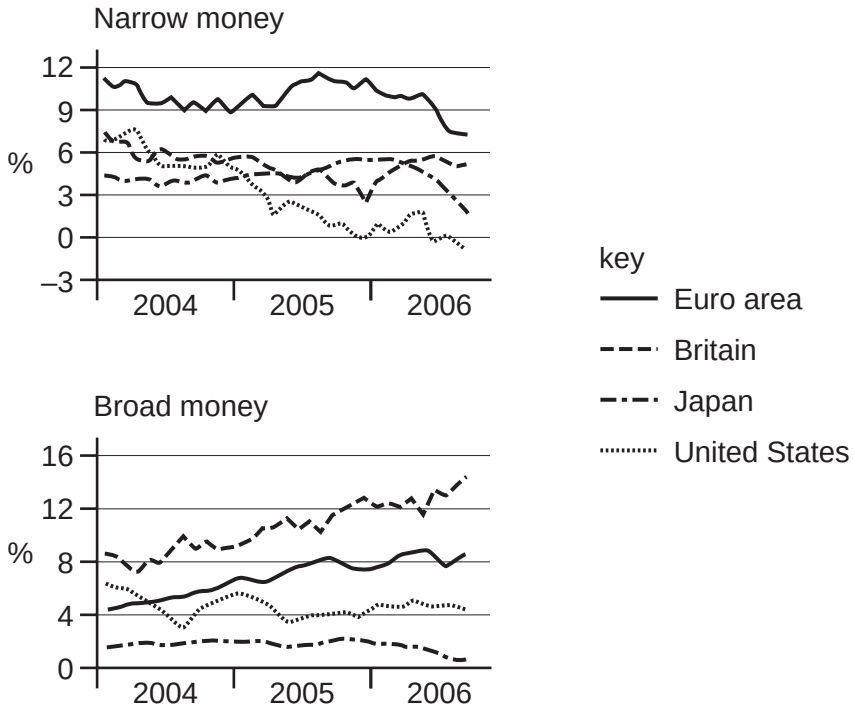
15 Between 2008 and 2009 a country's national income at current prices increased by 15 %. At the same time the country experienced 5 % inflation.

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

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



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

A Euro area

B Britain

C Japan

D United States

17 What is a central assertion of monetarist economics?

A Fiscal policy should be used for the continuous management of the economy.

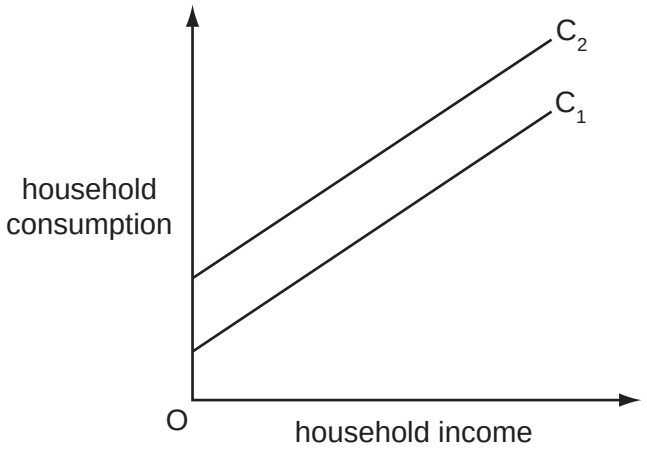
B Major recessions can occur despite an unchanged money supply.

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

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

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18 The diagram shows the relationship between household income and household consumption.



What would be likely to cause the household consumption curve to shift from C_1 to C_2?

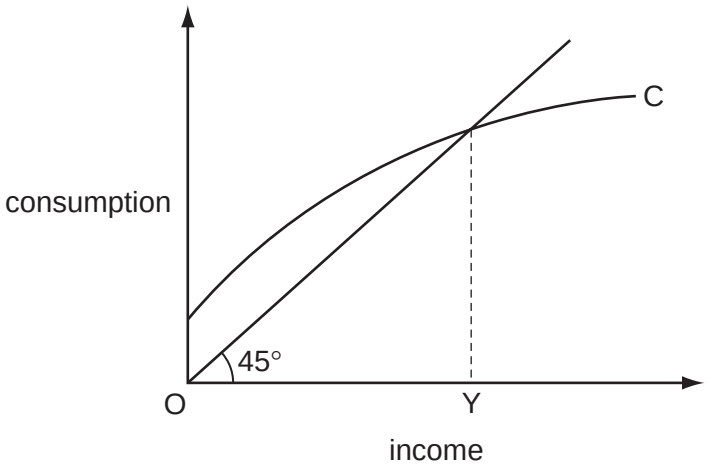
A a decrease in household income

B a decrease in the value of household assets

C an increase in interest rates

D an increase in the expected future level of household income

19 The diagram shows a consumption function for a closed economy with no government.



What can be concluded from the diagram?

A At income levels below OY, saving is negative.

B At income levels below OY, there is an inflationary gap.

C The equilibrium level of income is OY.

D The marginal propensity to consume increases as income increases.

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20 When national income equals $40 000 million and government spending equals $15 000 million, an economy is in equilibrium below full employment. Out of every increase of $100 in national income, $15 is taken in taxes, $30 is spent on imports and $5 is saved.

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

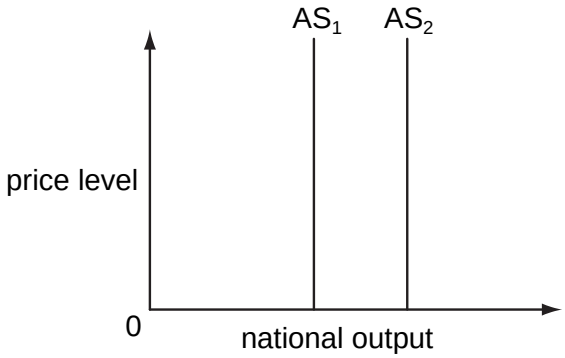
A $15 500 million

B $20 000 million

C $25 000 million

D $35 000 million

21 In the diagram AS_1 is an economy's long-run aggregate supply curve.



What will cause the aggregate supply curve to shift from AS_1 to AS_2?

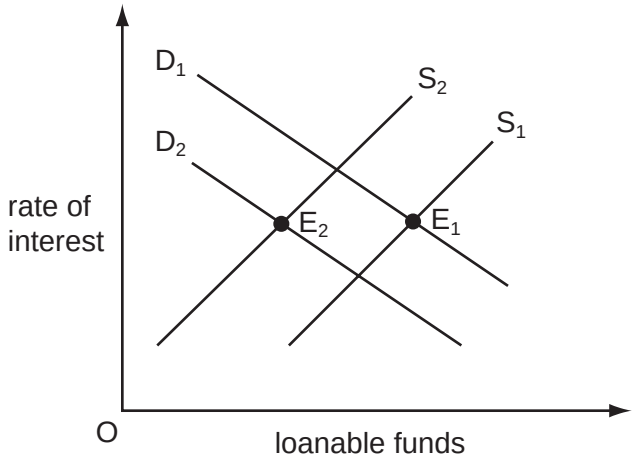
A an increase in consumer spending

B an increase in inflation

C an increase in productivity

D an increase in net exports

22 The diagram shows the demand curves and supply curves of loanable funds.



Which changes could cause the equilibrium in the market for loanable funds to move from E_1 to E_2?

A a decrease in bank lending combined with a decrease in business confidence

B a decrease in the money supply combined with an increase in the propensity to consume

C an increase in bank lending combined with an increase in the productivity of capital

D an increase in the money supply combined with a decrease in the productivity of labour

23 If the money supply is fixed, a decrease in economic activity

A increases interest rates.

B increases the transactions demand for money.

C raises the liquidity preference schedule.

D reduces the income velocity of circulation.

24 What could explain why the terms of trade of most developing economies tend to worsen over time?

A Their currencies are over-valued in foreign exchange markets.

B They impose lower barriers on imports than developed economies.

C They produce a narrower range of goods than developed economies.

D They produce goods with a low income elasticity of demand.

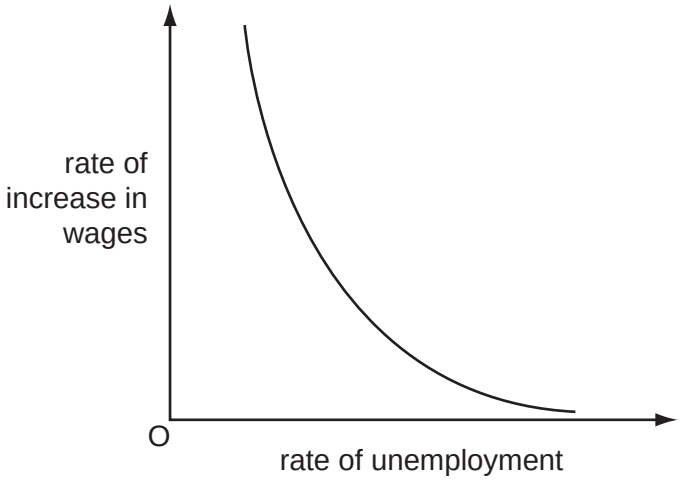
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25 An economy is operating at its natural rate of unemployment.

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



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

A a reduction in regional differences in unemployment rates

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

C an increase in the unemployment rate

D the expectation of a higher rate of inflation

27 Which policy is most likely to reduce a balance of payments deficit without causing inflation?

A a devaluation of the exchange rate

B an increase in import tariffs

C an increase in indirect taxes

D an increase in direct taxes

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28 Which is most likely to result in an increase in the natural rate of unemployment?

A a decrease in government expenditure on goods and services

B a decrease in the level of government payments to the unemployed

C an increase in trade union membership

D an increase in interest rates

29 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

30 What will be the impact of an increase in marginal tax rates?

A an increase in the propensity to save

B an increase in the value of the investment multiplier

C a strengthening of work incentives

D a strengthening in the operation of automatic stabilisers

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