UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Level

ECONOMICS **9708/32**

Paper 3 Multiple Choice (Supplement) **May/June 2011**

1 hour

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

9013541548

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.

This document consists of **11** printed pages and **1** blank page.

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1 A consumer seeks to maximise his utility.

Up to what point should he continue to consume each good?

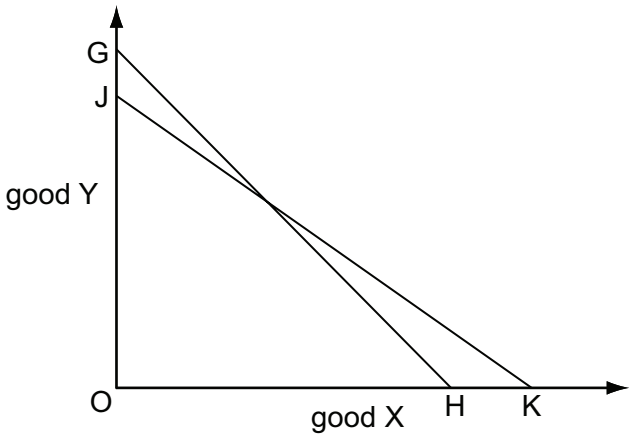
A until the marginal utility per dollar from each good is the same

B until the marginal utility from each good is the same

C until the marginal utility from each good reaches a maximum

D until the marginal utility from each good is zero

2 In the diagram, a consumer's initial budget line is JK.



Assuming no change in the price of X, what could explain a shift in the consumer's budget line to GH?

	price of good Y	consumer's money income
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

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3 The table shows the main characteristics of employment in two occupations.

	occupation X	occupation Y
average annual wage	$100 000	$60 000
number of weeks annual leave	5 weeks	10 weeks
average length of working week	48 hours	44 hours
job security	low	high
length of training course to obtain job qualification	1 year	2 years

What can definitely be deduced from the table?

A Those employed in occupation Y attach greater importance to job security.

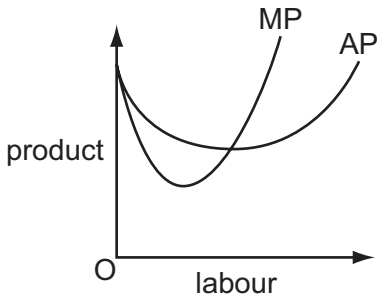
B Those employed in occupation X attach less importance to leisure activities.

C There will be more competition for places on training courses to enter occupation X than occupation Y.

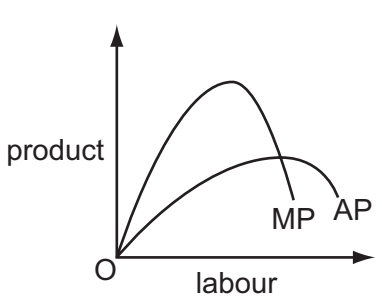
D Occupation Y has greater non-pecuniary advantages than occupation X.

4 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?

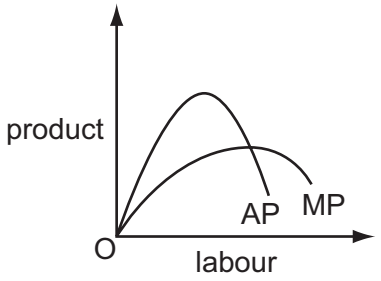
A



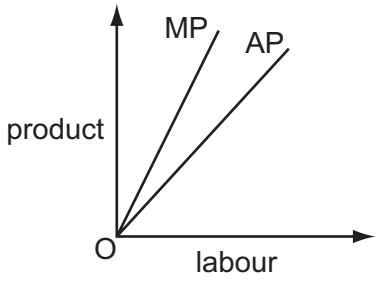
B



C



D



5 What is the name for the relationship between a firm's output and the quantities of factor inputs that it employs?

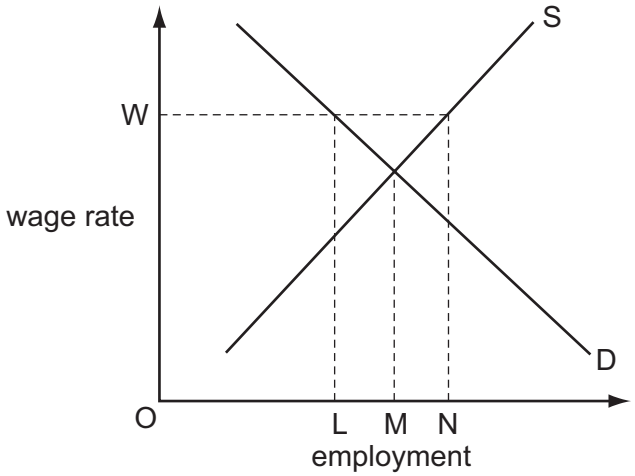
A a long-run average cost function

B a long-run production function

C productive efficiency

D returns to scale

6 The diagram shows the supply and demand for labour in an industry.



Initially the industry's labour market is in equilibrium.

What effect will the introduction of a minimum wage OW have on the level of employment in the industry?

A It will decrease by an amount LM.

B It will decrease by an amount LN.

C It will increase by an amount LN.

D It will increase by an amount MN.

7 A product with infinite elasticity of supply has sales of 1000 units a week at a price of $1 per unit. Price elasticity of demand is 1.5 over the relevant range.

The government imposes a tax of 10%.

What will be the government's weekly tax revenue?

A $15 **B** $85 **C** $100 **D** $150

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8 What is the likely outcome for producers and consumers when a market moves from being non-contestable to being a contestable market?

	producers	consumers
A	gain from higher prices	gain from a wider choice of products
B	gain from likely higher profits	lose from likely higher prices
C	lose from likely lower output	lose from a reduced choice of products
D	lose from likely lower profits	gain from likely lower prices

9 A firm is engaging in price discrimination.

In order to maximise profits, what should the firm do?

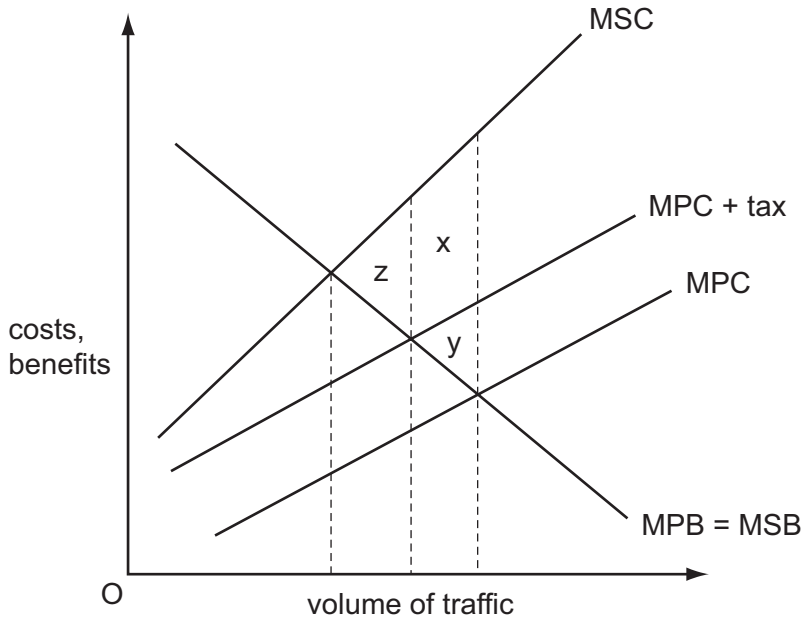
A charge a higher price to consumers earning higher incomes

B charge a higher price to consumers earning lower incomes

C charge a higher price to consumers whose demand for the product is price inelastic

D charge a higher price to consumers whose demand for the product is price elastic

10 The diagram shows the private and social marginal costs and benefits at different volumes of traffic.



The imposition of a congestion tax raises the MPC curve to MPC + tax.

Which area measures the resulting reduction in the deadweight loss?

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

11 A government imposes a maximum price for electricity.

Which statement justifying this measure might be considered valid on economic grounds?

A It will encourage electricity suppliers to invest in additional capacity.

B It will increase the incentive for consumers to conserve energy.

C It will prevent the monopolistic exploitation of consumers.

D It will prevent the rationing of electricity through power cuts.

12 Individuals are free to choose the number of hours they work, how much of their income they save and which goods and services they buy.

Which type of tax will **not** distort the choices individuals make?

A a tax levied on the wealth accumulated by individuals

B a uniform tax which raises the same fixed amount from all individuals

C indirect taxes on specific goods

D proportional income taxes

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

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

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

	year 1	year 2	year 3
A	✗	✓	✓
B	✗	✓	✗
C	✓	✗	✓
D	✓	✗	✗

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14 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

15 What will reduce the value of the investment multiplier?

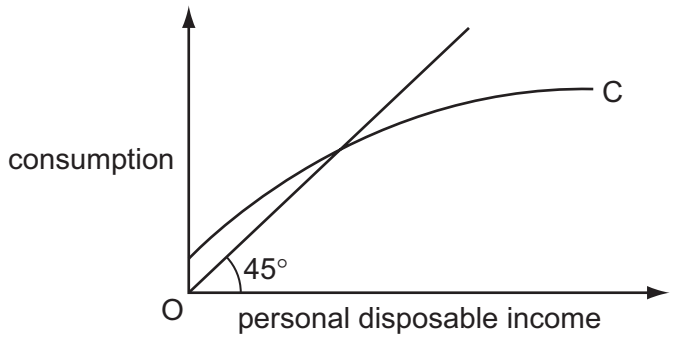
A a low marginal propensity to import

B automatic stabilisers

C low marginal tax rates

D low rates of unemployment benefit

16 The diagram shows a consumption function.



As income increases, what happens to the average propensity to save and the marginal propensity to save?

	average propensity to save	marginal propensity to save
A	decreases	decreases
B	decreases	increases
C	increases	decreases
D	increases	increases

17 Other things being equal, what will result in a decrease in aggregate demand?

A a decrease in interest rates

B a decrease in the balance of trade deficit

C a decrease in the government's budget deficit

D a decrease in the household saving ratio

18 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

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

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

20 Which characteristics are usually found in developing countries?

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

21 Which cause of economic growth would involve the least cost for present and future generations of a country's population?

A increased exploitation of a country's mineral resources

B investment financed by borrowing from abroad

C investment financed by high rates of domestic savings

D technological innovations in productive processes

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

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

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

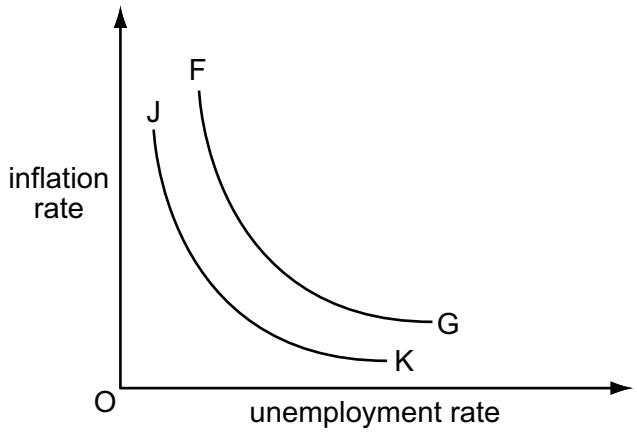
A 1950s to 1960s

B 1960s to 1970s

C 1970s to 1980s

D 1980s to 1990s

23 The diagram shows the relationship between the rate of inflation and the rate of unemployment.



What would cause the curve FG to shift to JK?

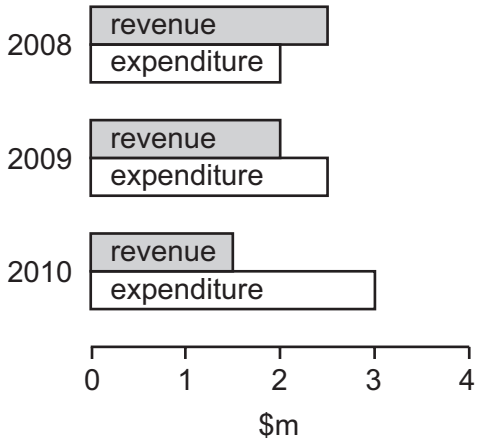
A a lower exchange rate

B a lower expected rate of inflation

C an increase in government expenditure

D a rise in the level of employment

24 The diagram shows a government's revenue and expenditure for three years.



What can be concluded from the diagram?

A A budget deficit was replaced by a budget surplus.

B A government borrowing requirement emerged.

C The economy moved from a recession into a boom period.

D The yield from taxation continuously increased.

25 Which tax is most likely to be regressive?

A an inheritance tax

B a property tax

C a sales tax

D income tax

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

A It will cause a rise in the exchange rate.

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

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

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

27 What would be classified as a supply side policy measure?

A additional legislation to restrict the power of trade unions

B a reduction in the government's fiscal deficit

C an open market sale of securities

D the imposition of a tariff on imported goods

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28 A country decides to join a group of countries which maintain fixed parities for their currencies and forbid any restriction on foreign trade and payments.

What will the country have to forgo to maintain a fixed parity for its currency?

A an independent anti-monopoly policy

B an independent fiscal policy

C an independent interest rate policy

D an independent prices and incomes policy

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

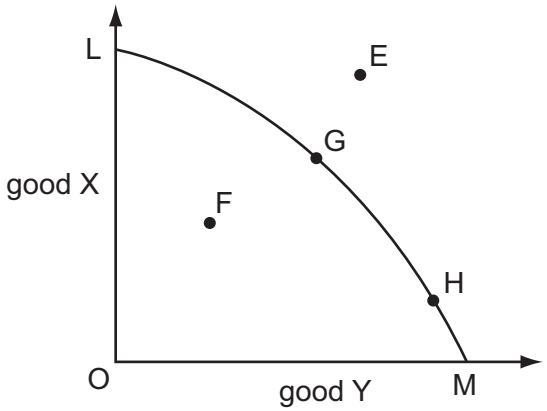
A It would increase labour productivity.

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

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

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

30 In the diagram, LM is an economy's production possibility curve.



Which statement is correct?

A E only is attainable.

B F is economically efficient.

C G may be economically efficient but is not productively efficient.

D H is productively efficient but may not be economically efficient.

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