UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Level

ECONOMICS **9708/31**

Paper 3 Multiple Choice (Supplement) **May/June 2012**

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 condition must be met for economic efficiency to be achieved?

A Marginal social costs are zero in the production of all goods.

B Marginal social costs are at a minimum in the production of all goods.

C Marginal social benefits are at a maximum in the production of all goods.

D Marginal social costs equal marginal social benefits in the production of all goods.

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

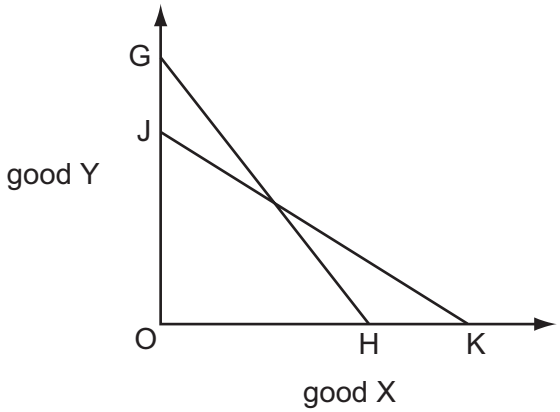
The individual's marginal utility of money is $1 = 3 units of utility.

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

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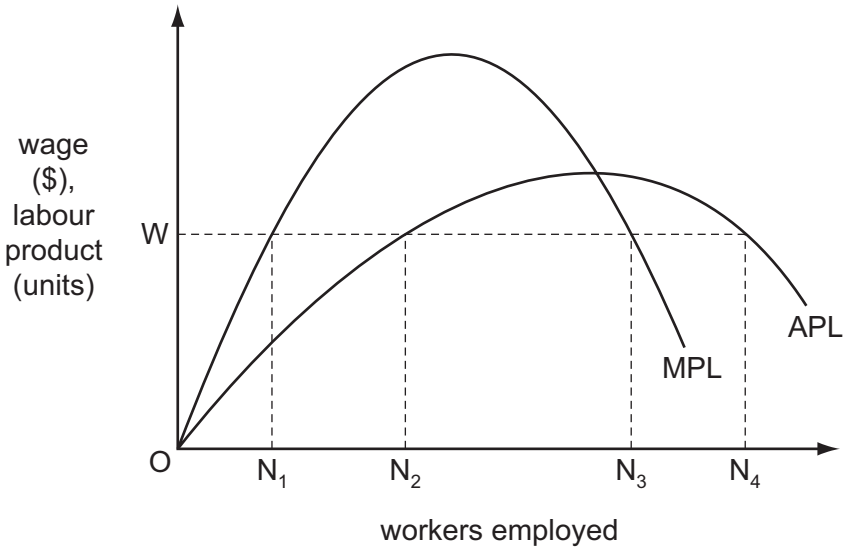
3 The curve JK in the diagram is a consumer's initial budget line.



Which combination could cause the budget line to shift to GH?

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

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

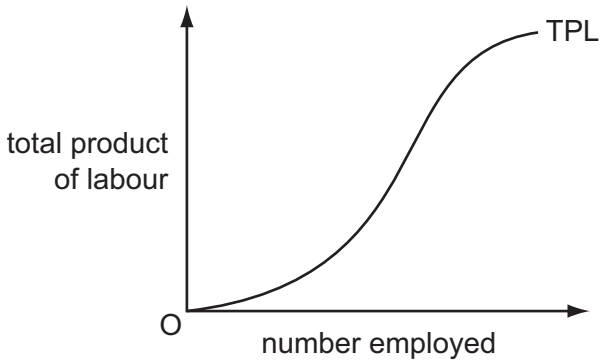


The market price of the firm's product is $1.

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

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

5 The diagram shows the total product of labour curve for a firm whose only variable factor input is labour.



What explains the shape of the curve?

A diminishing marginal disutility of work

B increasing marginal disutility of work

C technical diseconomies of scale

D the law of variable proportions

6 Which is a financial economy of scale?

A lower costs in raising capital

B lower costs of marketing

C lower risk due to diversification

D lower variable costs of production

7 There is an increase in the supply of female labour.

What will be the likely effect on male and female wages?

	male wages	female wages
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

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8 An economist calculates that a firm has incurred the following costs over the course of a year.

	$(000)
wages and salaries	150
opportunity cost of owner's time	35
materials	80
rent	30
marketing fees	20
interest on bank loans	25
interest forgone on finance provided by owner	10

By how much does total cost as defined by an economist exceed the total cost as defined by an accountant?

A $75 000 **B** $45 000 **C** $35 000 **D** $10 000

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

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

A Its revenue will fall to zero.

B Its revenue will be unchanged.

C Its revenue will decrease by 5 %.

D Its revenue will increase by 5 %.

10 The five firm concentration ratio for an industry changes from 50 % to 60 %.

Which statement about the industry is correct?

A Each firm has become more efficient.

B The industry has become more oligopolistic.

C The industry has benefited from external economies of scale.

D The industry now has fewer barriers to entry.

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

A All firms in the industry produce an identical product.

B All firms in the industry are price-takers.

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

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

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12 A perfectly competitive firm is currently producing at a level of output where its marginal cost is above both its average total cost and the market price.

What will be the effect on price and output if the firm were to maximise its profit?

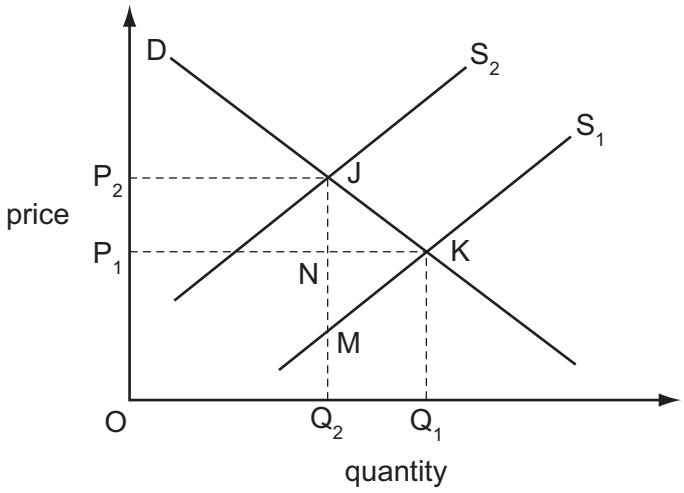
	effect on output	effect on price
A	decrease	increase
B	decrease	unchanged
C	increase	decrease
D	increase	unchanged

13 An industry moves from monopolistic competition to oligopoly.

How will this affect barriers to entry and the degree of interdependence between firms?

	barriers to entry	interdependence between firms
A	strengthen	strengthen
B	strengthen	weaken
C	weaken	strengthen
D	weaken	weaken

14 In the diagram the imposition of a tax on a commodity causes its supply curve to shift from S_1 to S_2.



Which area measures the resulting deadweight loss?

A P_1P_2JK **B** JKQ_1Q_2 **C** JKM **D** JKN

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15 A government decides to privatise a state monopoly.

What should the government do to try to ensure that this will result in an improvement in efficiency?

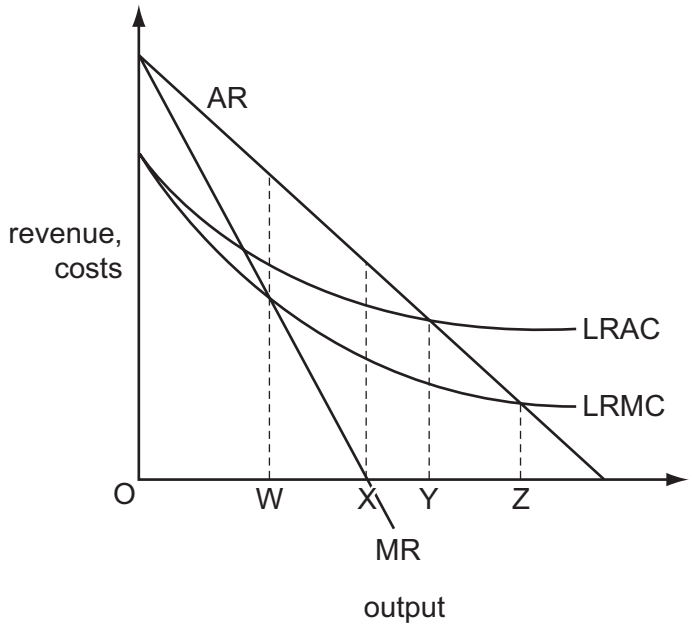
A allocate vouchers to all citizens entitling them to a share in the ownership of the monopoly

B encourage competition

C impose a maximum profit margin

D privatise the monopoly as a going concern

16 The diagram shows the long-run cost and revenue curves of a monopolist.



Which level of output satisfies the condition for an efficient allocation of resources?

A OW **B** OX **C** OY **D** OZ

17 Due to a cyclical downturn, a government is experiencing a budget deficit.

If the government wishes to stimulate aggregate demand, which policy would be most effective?

A financing the deficit by borrowing from the Central Bank

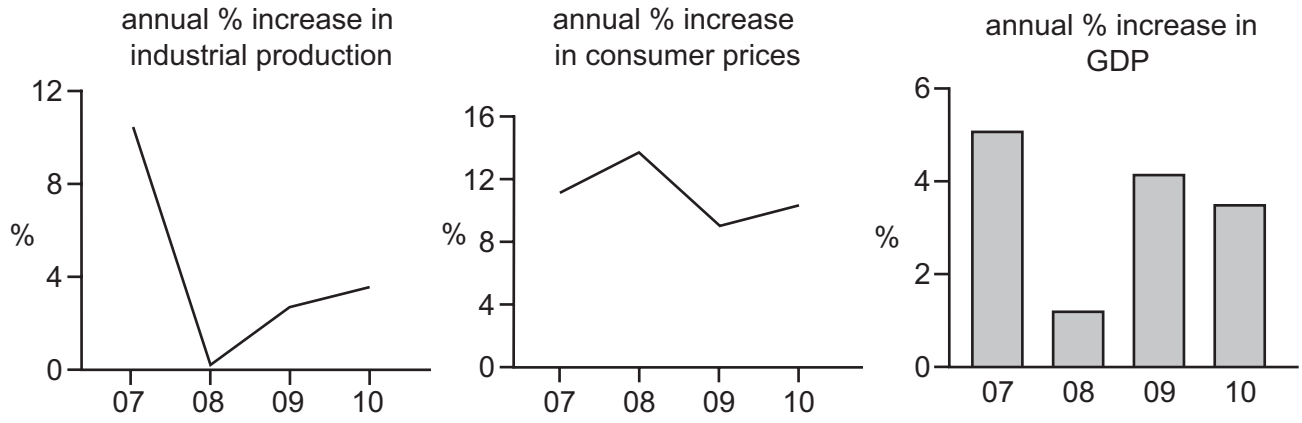
B financing the deficit by selling bonds to individuals

C financing the deficit by selling state assets to private firms

D increasing tax rates to eliminate the deficit

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18 The graphs indicate economic performance in a country between 2007 and 2010.



Which conclusion may be drawn from the graphs?

A Between 2007 and 2008 industrial production and GDP fell but prices rose.

B Between 2008 and 2009 the rates of growth of industrial production, GDP and prices all increased.

C GDP and industrial production were at their lowest in 2008.

D At no time did industrial production, GDP or prices fall.

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

A a balance of trade surplus

B a government budget surplus

C the retained profits of private companies

D household saving

20 According to monetarist theory, what will be the short-run effect of an unexpected increase in the money supply?

A an appreciation of the foreign exchange rate

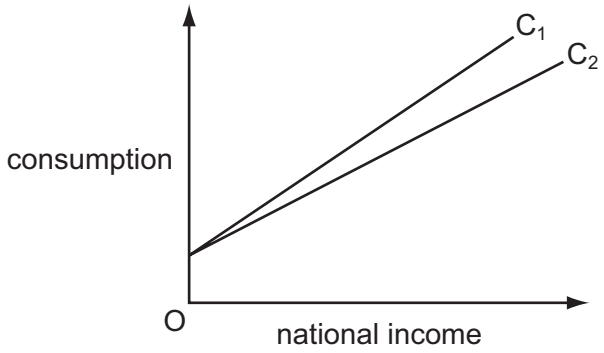
B an increase in output

C an increase in real wages

D an increase in the rate of interest

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21 In the diagram, C_1 shows the initial relationship between consumption and national income.



What could cause the consumption function to shift to C_2?

A an increase in the rate of unemployment benefits

B an increase in the standard rate of income tax

C an increase in exports

D an increase in investment

22 Other things being equal, the money supply in an open economy will increase if

A domestic banks increase their lending to foreign borrowers.

B the central bank buys foreign currency in the foreign exchange market.

C the government sells bonds to domestic residents.

D there is an increase in the volume of imports to the economy.

23 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	increase	decrease	increase
B	constant	constant	increase
C	increase	increase	decrease
D	constant	decrease	decrease

24 In a banking system all banks maintain 10 % of deposits as cash.

Customers withdraw $20 000 in cash.

Assuming no subsequent net change in notes and coins in circulation, by how much will the banks have to reduce their net loans?

A $2000 **B** $18 000 **C** $180 000 **D** $220 000

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25 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?

	consumption ($ m)	capital formation ($ m)	depreciation ($ m)
A	100	20	30
B	500	200	200
C	1 000	1 400	1 200
D	20 000	5 000	6 000

26 What is likely to result from the discovery of oil reserves in a developing economy?

A a more equal distribution of income and wealth

B an increase in the real exchange rate

C an increase in the competitiveness of commercial agriculture

D a reduction in the volume of imports of manufactured goods

27 A government's priority is to reduce the natural rate of unemployment (NAIRU).

Which policy would be most likely to help it achieve this objective?

A an increase in interest rates

B an increase in rates of unemployment benefit

C the introduction of minimum wage rates

D the introduction of subsidised travel for unemployed workers to search for jobs

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

What could explain this?

A net inward immigration

B an increase in the level of unemployment benefits

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

D an increase in the number of students

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29 The European Union imposes a quota on the volume of garments imported from China.

What is likely to be a consequence?

A an increase in the prices received by Chinese textile firms

B a reduction in the prices paid by EU consumers

C a switch to producing lower-value garments by Chinese textile firms

D a reduction in the volume of garments exported from China to non-EU markets

30 The government of Lesotho introduces a programme to promote exports and to encourage firms to grow by subsidising local entrepreneurs.

What effect is this likely to have on incomes, the balance of payments current account deficit and government expenditure in Lesotho?

	incomes	balance of payments current account deficit	government expenditure
A	fall	uncertain	rise
B	rise	reduce	no change
C	fall	reduce	rise
D	rise	uncertain	rise

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