UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Level

ECONOMICS **9708/32**

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)

0332722167

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 When is economic efficiency achieved in an economy?

A when nobody can become better off without somebody else becoming worse off

B when the economy is operating at its natural rate of unemployment

C when the level of social costs is minimised

D when the rate of economic growth is maximised

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

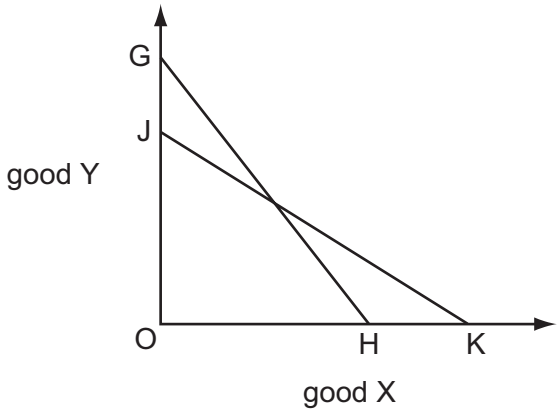
The individual's marginal utility of money is $1 = 3 units of utility.

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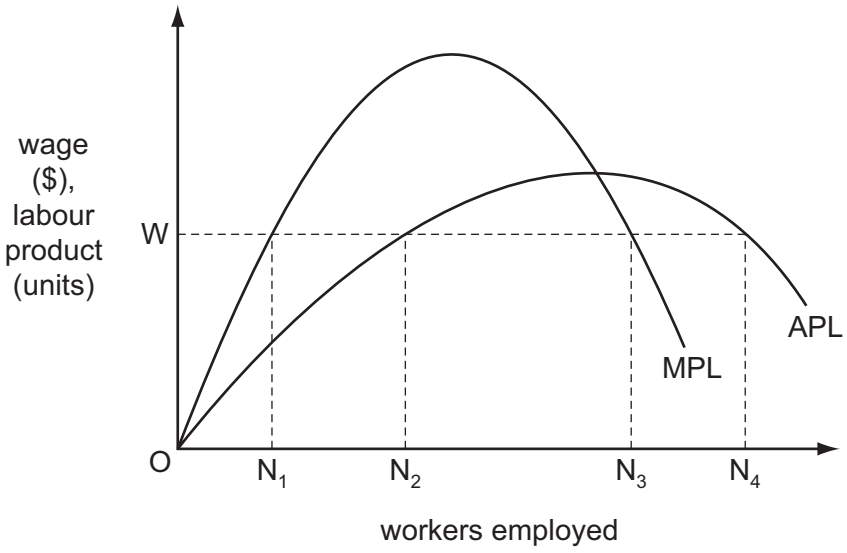
3 The curve GH in the diagram is a consumer's initial budget line.



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

	price of good X	consumers' money income
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 A firm experiences diseconomies of scale over its entire range of output.

What is the shape of its long-run average cost curve?

A It is horizontal.

B It is 'U' shaped.

C It slopes downwards.

D It slopes upwards.

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 The table shows a firm's total costs of production.

production (tonnes)	total cost ($)
0	40
1	60
2	70
3	80
4	90
5	100

What is the average variable cost of producing 5 tonnes of output?

A $8.00 **B** $10.00 **C** $12.00 **D** $20.00

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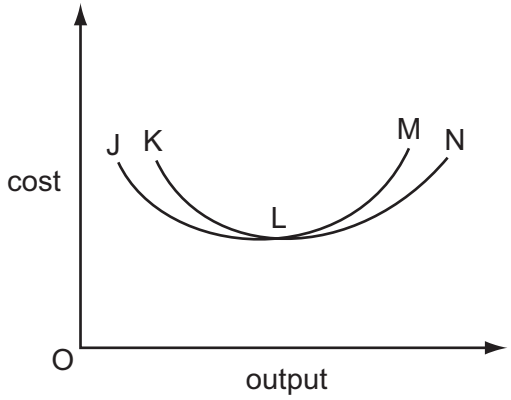
8 An economist calculates that a firm has incurred the following costs over the course of a year.

	$(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 diagram shows a firm's short-run and long-run average cost curves.



Which curve is the firm's long-run average cost curve?

A JLN **B** JLM **C** KLM **D** KLN

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

Which statement about the industry is correct?

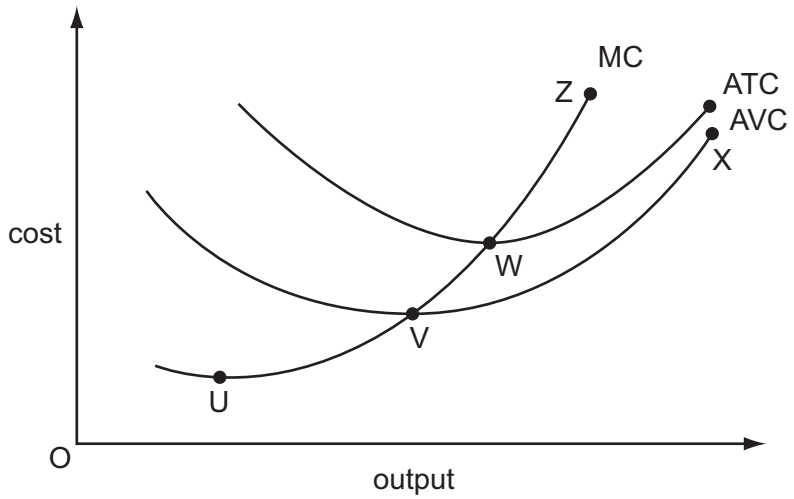
A Each firm has become more efficient.

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 The diagram shows the cost curves of a firm in a perfectly competitive market.



Which segment of a curve shows the quantity that the firm would be willing to supply to the market in the short-run?

A VX **B** UZ **C** VZ **D** WZ

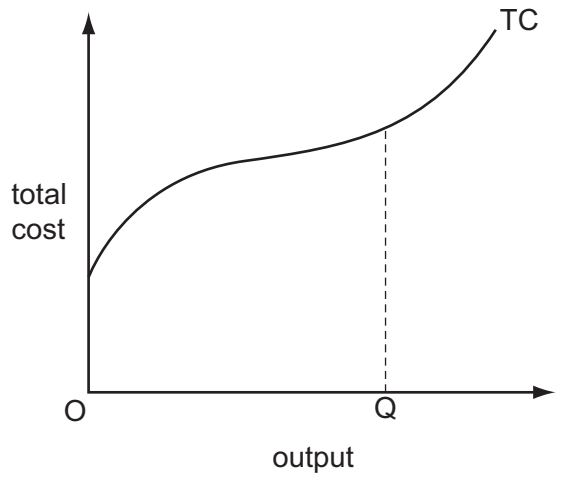
12 A perfectly competitive firm is currently producing at a level of output where its marginal cost is above both its average total cost and the market price.

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

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



What is minimised at output OQ?

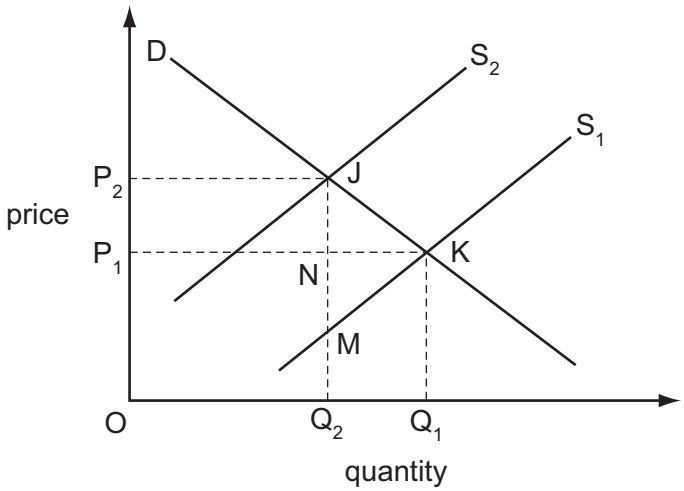
A average fixed cost

B average total cost

C average variable cost

D marginal cost

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

15 A good gives rise to external benefits and is produced under conditions of imperfect competition.

Which statement must be true?

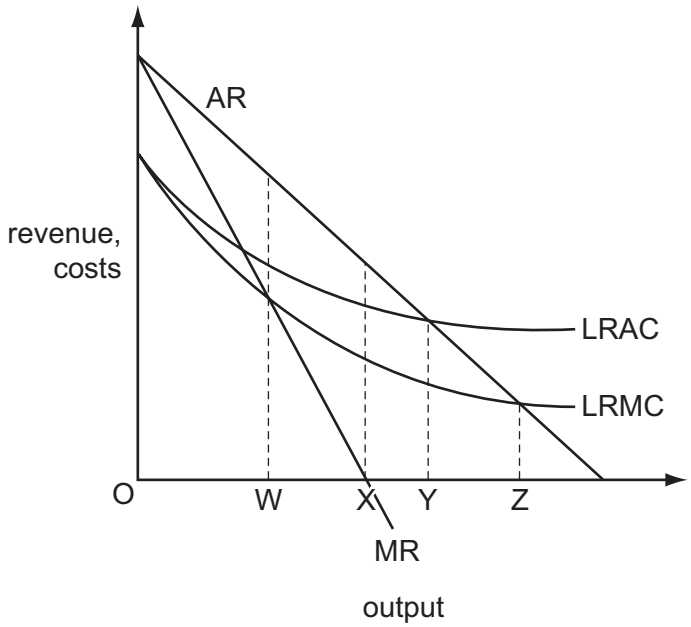
A Benefits to consumers exceed the benefits to society.

B Firms producing the good will make a loss.

C Output of the good is below the socially optimum level.

D Social costs of production exceed private costs.

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 A government uses real personal disposable income per head as a measure of the standard of living.

What does this measure **not** take into account?

A the distribution of income

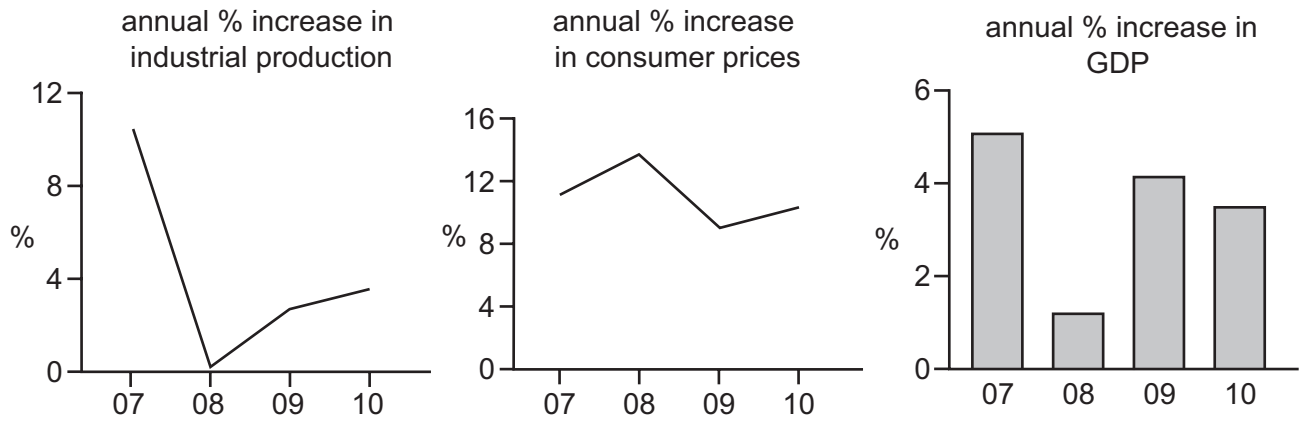
B the level of national income

C the size of the population

D the average price level

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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?

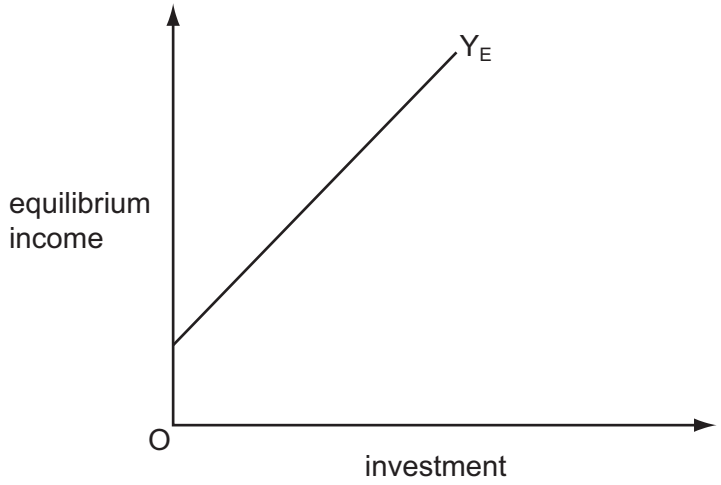
A an appreciation of the foreign exchange rate

B an increase in output

C an increase in real wages

D an increase in the rate of interest

21 In the diagram, Y_E indicates the equilibrium level of income corresponding to different levels of investment.



What does the slope of the line Y_E measure?

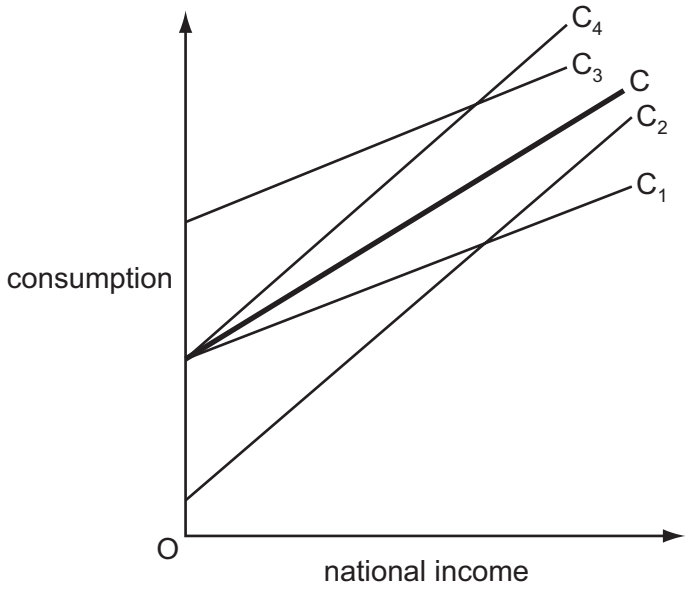
A the investment multiplier

B the marginal propensity to save

C the rate of growth of investment

D the rate of growth of national income

22 In the diagram, C is an economy's initial relationship between consumption and national income.



Which curve could show the economy's new consumption function following a reduction in the rate of unemployment benefits?

A C_1 **B** C_2 **C** C_3 **D** C_4

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23 What would result in an increase in the volume of bank deposits?

A an increase in the public's desire to hold cash

B an increase in government expenditure financed by borrowing from the central bank

C an increase in the proportion of their deposits that banks hold in cash

D an open market sale of securities by the central bank

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

25 Which change is most likely to increase both economic growth and economic development in the long-run?

A a decrease in the savings ratio

B an increase in investment in human capital

C the depletion of non-renewable resources

D the greater use of compulsory overtime working of labour

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 What will be most likely to decrease a country's national output in the short run but to increase its potential for long-run growth?

A a decrease in the level of import tariffs

B a decrease in the rate of immigration

C an increase in female participation in the labour force

D an increase in the money supply

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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

29 What would be an appropriate government action to reduce both a balance of payments current account surplus and the rate of inflation?

A increase the money supply

B increase direct taxes

C remove tariffs on imports

D devalue the currency

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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