UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Level

ECONOMICS **9708/33**

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)

* 2 5 4 9 1 7 0 2 3 5 *

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 A utility maximising consumer spends the whole of his disposable income of $40 on food and clothing.

The table shows the price of food, the quantity purchased by the consumer, and the marginal utility he derives from food consumption.

food	
price per unit	$5
quantity demanded	5
marginal utility (units)	10

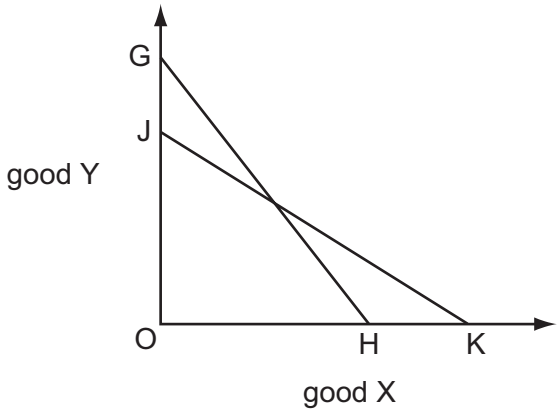
His marginal utility from clothing is 2 units.

What is the price of clothing per unit and the quantity purchased by the consumer?

	clothing	
	price ($)	quantity (units)
A	0.5	30
B	1.0	15
C	3.0	5
D	5.0	3

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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 A firm employs two factors, X and Y, to produce a good which is sold for $4.

The table shows its factor productivities and factor prices.

factor	marginal physical product	factor price ($)
X	3	15
Y	5	12

What should the firm do?

A employ less of both X and Y

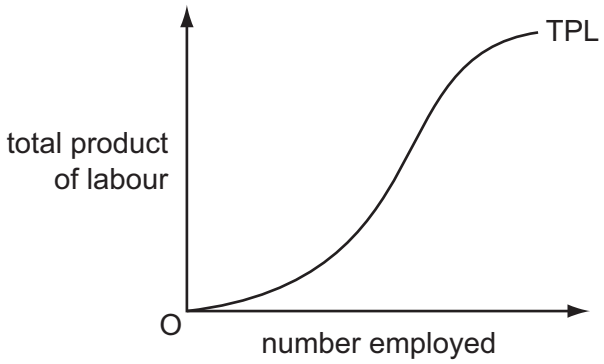
B employ more of X and less of Y

C employ more of Y and less of X

D employ more of both X and Y

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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 A worker responds to an increase in his hourly wage rate by reducing the number of hours he works per week.

What would explain this?

A The income effect of the wage rate increase outweighs the substitution effect.

B The substitution effect of the wage rate increase outweighs the income effect.

C The worker's supply of labour is wage elastic.

D The worker's supply of labour is wage inelastic.

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 Samsung Electronics, which began as a semiconductor firm making simple memory chips, has used continuous research and investment to emerge as an industry leader.
In addition, it has applied its strength in semiconductors to other markets including televisions and mobile phones.

What has taken place?

A external growth and diversification

B external growth and sales revenue maximisation

C internal growth and diversification

D internal growth and sales revenue maximisation

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 What explains why both large and small firms are often found within the same industry?

A All firms in the industry produce identical products.

B Firms that assemble the final product buy components from specialist firms within the industry.

C Production within the industry is subject to diseconomies of scale.

D There are significant barriers to the entry of new firms into the industry.

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 The table shows the total revenue and marginal cost of a firm at different levels of production.

production (tonnes)	total revenue ($)	marginal cost ($)
2	100	5
3	120	10
4	140	15
5	160	20
6	180	25
7	200	30

Within which output range will the firm's profits be maximised?

A 2-3 tonnes

B 3-4 tonnes

C 4-5 tonnes

D 5-6 tonnes

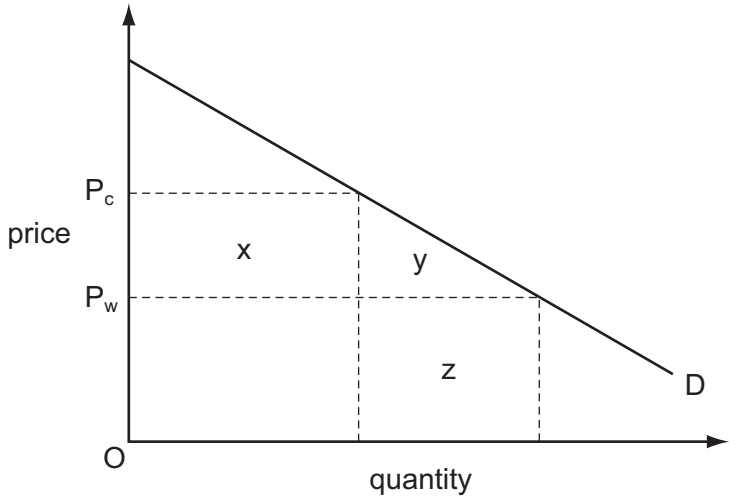
13 An industry moves from monopolistic competition to oligopoly.

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

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14 In the diagram, D is a country's demand curve for an imported good. The world price of the good is OP_W.



Which area measures the deadweight loss to the country of imposing an import tariff equal to $P_W P_C$ on the good?

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

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 What might make Gross National Product (GNP) per capita a misleading indicator when comparing living standards in different countries?

A differences between market exchange rates and purchasing power parity exchange rates

B differences in capital investment as a proportion of GNP

C differences in exports and imports as a proportion of GNP

D differences in net property income from abroad

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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

18 Which represents a leakage from a country's circular flow of income?

A a government budget deficit

B bank loans to private companies

C the purchase of foreign assets by the country's households

D unemployment benefits

19 Which statement would be consistent with a monetarist view of the workings of the macroeconomy?

A The demand for money function can shift in an unpredictable way.

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

C Interest rates have little effect on aggregate money expenditure.

D A sustained inflation is always associated with an increasing money supply.

20 In a closed economy with no government, the equilibrium level of income is $25 million, the full employment level of income is $30 million and there is a deflationary gap of $1 million.

What can be deduced from this information?

A The level of investment is $5 million.

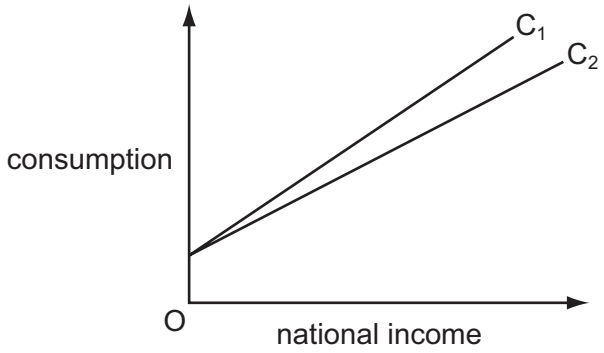
B The marginal propensity to consume is $\frac{4}{5}$.

C The marginal propensity to consume is $\frac{5}{6}$.

D The value of the investment multiplier is 1.5.

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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 Which change would best indicate that a country has experienced economic development?

A an appreciation in the country's currency

B an improvement in the average citizen's quality of life

C an improvement in the country's trade balance

D an increase in the country's real GDP

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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 How will outward migration from a developing economy affect its balance of payments?

A It may improve its balance of payments by increasing its export capacity.

B It may improve its balance of payments by increasing inflows of current transfers.

C It may worsen its balance of payments by causing its currency to depreciate.

D It may worsen its balance of payments by increasing consumer expenditure on imported 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 Other things being equal, what is likely to result from a reduction in interest rates in a country?

A an appreciation of the country's currency

B a decrease in consumption

C a decrease in investment

D an outflow of short-term capital

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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 A government responds to cyclical fluctuations in output by keeping tax rates and benefit rates unchanged.

What is the government seeking to achieve by adopting this fiscal policy?

A to allow automatic stabilisers to work

B to keep output at the full employment level

C to maintain a constant balanced budget

D to ensure that its budget is in surplus over the trade cycle

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