UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Level

ECONOMICS **9708/31**

Paper 3 Multiple Choice (Supplement) **May/June 2013**

1 hour

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

9616154357

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.
DO **NOT** WRITE IN ANY BARCODES.

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 The introduction of equal pay legislation in a country increases the wages of female workers.

What will be the most likely effect of this increase?

A a reduction of the rate of female unemployment

B a reduction in the wages of male workers

C an expansion in the supply of female workers

D substitution of male workers by female workers

2 The table shows the total utility that an individual derives from consuming different quantities of a good.

quantity of good (units)	total utility (units)
1	20
2	36
3	48
4	56
5	60
6	62

The individual's marginal utility of money is $1 = 2 units of utility.

What is the maximum quantity of the good that the individual will buy when its price is $6?

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

3 The table shows the current position of a firm in a perfectly competitive industry.

	factor X	factor Y
marginal physical product	2	4
factor price	$5.00	$10.00

If the firm sells its product at $3 and aims to maximise profits, what should it employ?

A more of both X and Y

B more of X and less of Y

C more of Y and less of X

D less of both X and Y

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4 The table shows the output of chairs at a factory when different numbers of workers are employed.

number of workers	0	1	2	3	4	5
number of chairs produced	0	7	17	26	34	40

Diminishing marginal returns to labour will set in when

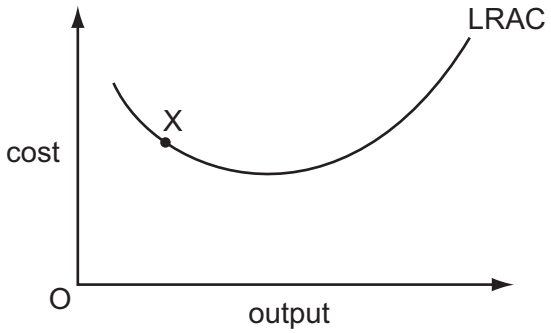
A the second worker is employed.

B the third worker is employed.

C the fourth worker is employed.

D the fifth worker is employed.

5 In the diagram, the firm is operating at point X on its long-run average cost curve.



Which statement about the firm is correct?

A It is operating at its optimal level of output.

B It is operating at its cost-minimising level of output.

C It is operating its plant at full capacity.

D It is producing its current output at minimum cost.

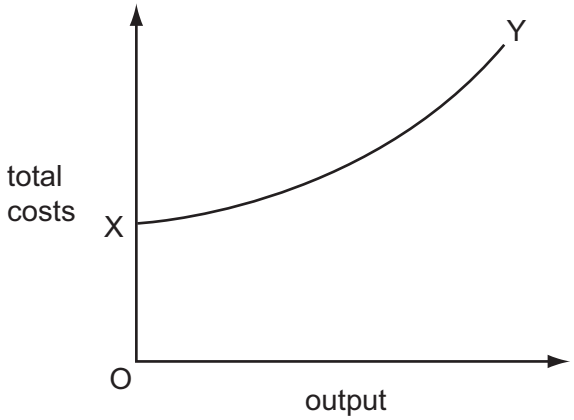
6 The table shows the inputs of the two factors of production, capital and labour, needed to produce varying levels of output.

output	capital	labour
100	5	10
200	8	16
300	12	24
400	16	32
500	24	48

Over which range of output do decreasing returns to scale occur?

A 100 to 200 **B** 200 to 300 **C** 300 to 400 **D** 400 to 500

7 In the diagram, XY is a firm's total cost curve.



What happens to the firm's costs as output is increased?

	average fixed costs	average variable costs
A	decrease	decrease
B	decrease	increase
C	constant	decrease
D	constant	increase

8 What is **most** likely to pose a threat to the survival of small local bakeries?

A an increase in the cost per minute of television advertising

B a switch in consumer preferences to cheaper mass-produced bread

C diseconomies of scale in the process of bread production

D increased congestion on road networks

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9 The demand for a firm's product is perfectly elastic.

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

A Its revenue will be unchanged.

B Its revenue will decrease by 5%.

C Its revenue will fall to zero.

D Its revenue will increase by 5%.

10 A perfectly competitive industry becomes a profit-maximising monopoly.

The marginal cost curve of the monopolist is identical to the supply curve of the perfectly competitive industry.

How will output and price be affected?

	output	price
A	decreases	decreases
B	decreases	increases
C	increases	decreases
D	increases	increases

11 A firm earns supernormal profit when its profit is

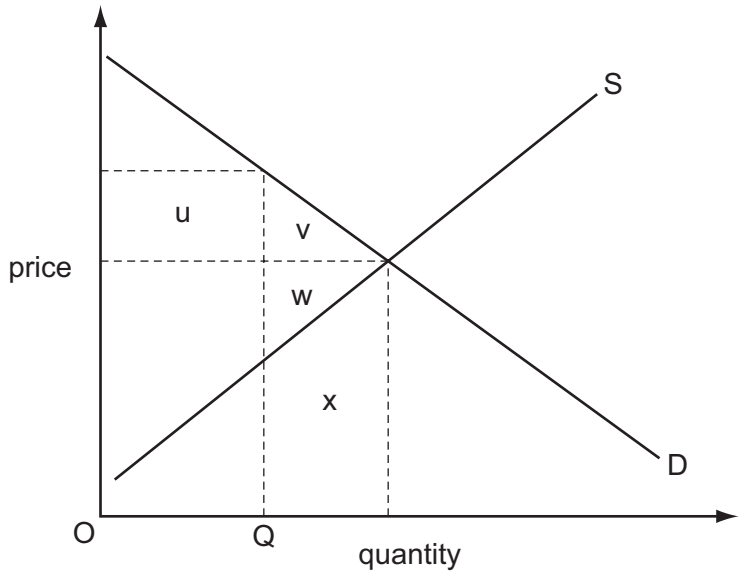
A above that earned by competing firms.

B above that needed to cover its fixed costs.

C above that needed to keep the firm in production in the short run.

D above that required to keep its resources in their present use in the long run.

12 The diagram shows an industry's supply and demand curves.



The government initially restricts the quantity to OQ.

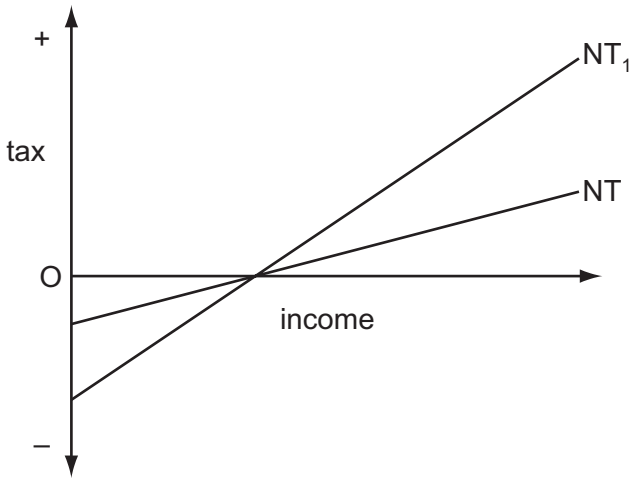
The restriction on the quantity is then removed.

In the absence of externalities, which area in the diagram measures the net gain in economic welfare?

A u **B** v **C** v + w **D** v + w + x

13 A country has a negative income tax.

The curve NT in the diagram shows the country's initial tax schedule.



A change in the tax rate causes the schedule to shift to NT_1.

What is **most** likely to be the impact on incentives and on equity?

	incentives	equity
A	improvement	improvement
B	improvement	worsening
C	worsening	improvement
D	worsening	worsening

14 What adjustments to real GNP per head might make it a more reliable indicator when comparing standards of living in different countries?

A adjustments to allow for differences in population size in different countries

B adjustments to allow for differences in rates of inflation in different countries

C adjustments to allow for differences in the relative size of the hidden economy in different countries

D the use of market exchange rates rather than purchasing power parity exchange rates

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15 Which combination of circumstances is most likely to lead to an increase in a country's budget deficit?

	total GDP	unemployment	discretionary government spending
A	decreases	rises	decreases
B	decreases	rises	no change
C	increases	falls	increases
D	increases	falls	no change

16 Which correctly identifies injections into a country's circular flow of income?

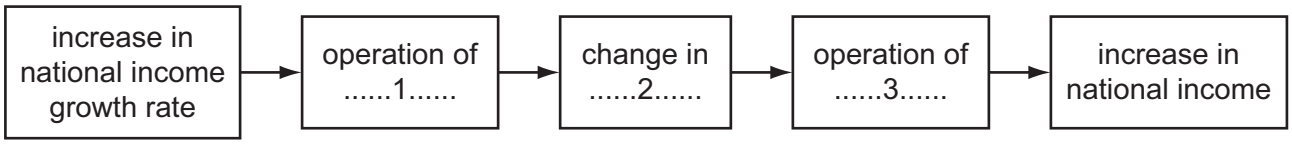
	private sector (S > I)	public sector (T > G)	trade sector (X > M)
A	no	no	no
B	no	no	yes
C	yes	no	no
D	yes	yes	yes

17 A closed economy with no government has a marginal propensity to consume of 0.9. Its full employment national income is $60 000 m. Its current national income is $40 000 m.

To achieve full employment, by how much must investment be increased?

A $2000 m **B** $6000 m **C** $18 000 m **D** $20 000 m

18 The diagram sets out how an increase in the rate of growth of national income can lead to a further increase in national income.



What must be inserted into the diagram at points 1, 2 and 3?

	1	2	3
A	the accelerator	induced investment	the accelerator
B	the accelerator	induced investment	the multiplier
C	the multiplier	autonomous investment	the accelerator
D	the multiplier	autonomous investment	the multiplier

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19 What will result from a rise in interest rates?

A a depreciation in the exchange rate

B a fall in the price of bonds

C an increase in capital spending

D an increase in the demand for money

20 In which circumstance will an increase in the public sector deficit **not** lead to an increase in the money supply, other things being equal?

A Commercial bank lending to the private sector is held constant.

B The deficit is financed by an increase in government borrowing from private individuals.

C The rate of interest is held constant.

D There is large-scale unemployment.

21 What is meant by liquidity preference?

A a desire to be paid in cash rather than by cheque

B a desire to be paid monthly rather than weekly

C a desire to hold assets that are convertible into cash

D a desire to hold money rather than other assets

22 Which combination is usually found in developing countries?

A a low birth rate and a dominant primary sector

B capital intensive production and a rapidly growing population

C external debt and a low death rate

D labour intensive production and a low rate of saving

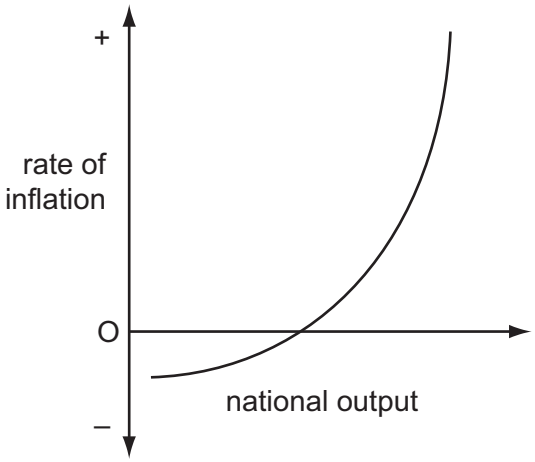
23 Which pattern of labour market data is likely to indicate an increase in cyclical unemployment?

	changes in	
	compulsory redundancies	voluntary resignations
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

24 What would an economist include when using social cost-benefit analysis to assess policies to reduce the level of unemployment?

	changes in crime rates	changes in mental health	changes in work skills
A	no	no	no
B	no	no	yes
C	yes	no	yes
D	yes	yes	yes

25 The diagram shows the short-run trade-off between a country's inflation rate and its national output level.



What could cause the curve to shift to the left?

A an increase in the money supply

B an increase in labour productivity

C an increase in the expected future rate of inflation

D an increase in the budget deficit

26 Legal reforms to reduce the power of trade unions have in many countries reduced inflationary pressures.

Of which policy is this an example?

A monetary policy

B demand side policy

C fiscal policy

D supply side policy

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27 The table gives the percentage of employment in the primary, secondary and tertiary sectors in four countries.

Which country is most likely to be a developed country?

	primary sector %	secondary sector %	tertiary sector %
A	15	40	45
B	30	40	30
C	35	45	20
D	45	35	20

28 Which combination indicates that a country has a freely floating exchange rate?

	nominal exchange rate	foreign currency reserves
A	depreciates by 20%	decrease by $1 billion
B	depreciates by 20%	unchanged
C	unchanged	decrease by $1 billion
D	unchanged	unchanged

29 An economy has a balance of payments trade surplus and a high level of inflation.

What would be an appropriate action for a government to take?

A devalue the currency

B reduce direct taxes

C increase the money supply

D remove tariffs on imports

30 What does a government need to do to maintain a balanced budget?

A keep tax rates and benefit rates unchanged in a slump

B raise taxes in a slump and lower taxes in a boom

C raise both tax rates and benefit rates in a boom

D raise both tax rates and benefit rates in a slump

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