Cambridge International A Level

Cambridge International Examinations
Cambridge International Advanced Level

ECONOMICS **9708/31**

Paper 3 Multiple Choice (Supplement) **May/June 2014**

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, 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.

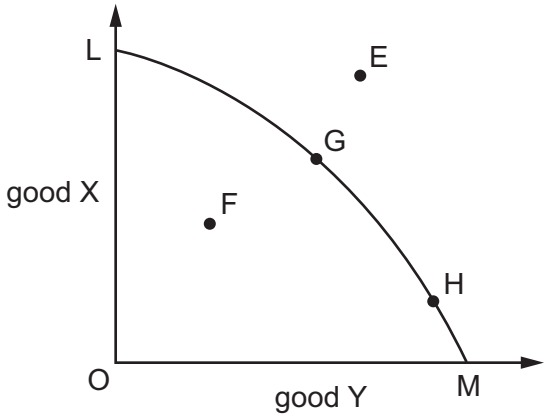
Read the instructions on the Answer Sheet very carefully.

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 **14** printed pages and **2** blank pages.

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1 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.

2 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

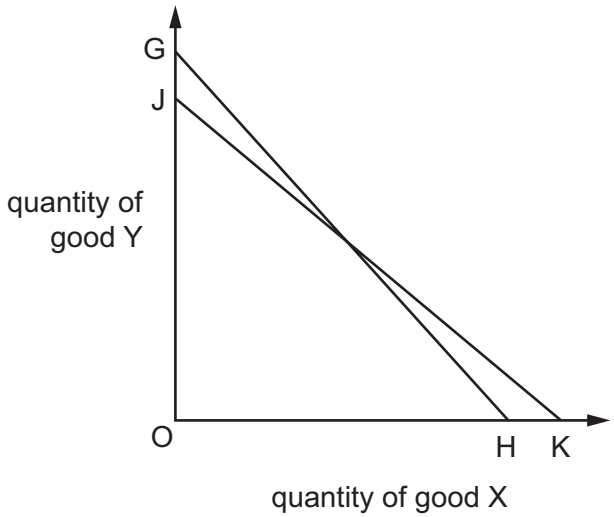
B until the marginal utility from each good is the same

C until the marginal utility from each good reaches a maximum

D until the marginal utility from each good is zero

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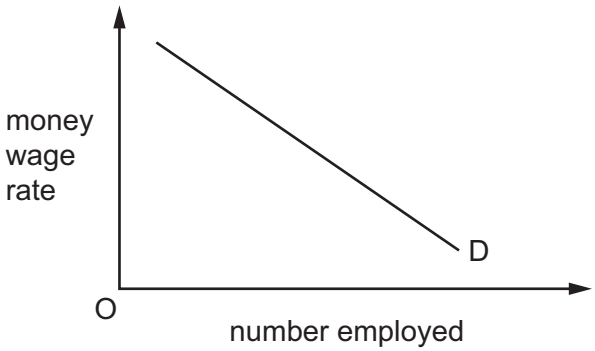
3 In the diagram a consumer's initial budget line is GH.



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

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

4 The diagram shows the demand curve for labour.



What could cause the demand curve to shift to the right?

A a decrease in labour productivity

B an increase in immigration

C an increase in the average price level

D a fall in the money wage rate

5 A firm currently employs 100 workers at a daily wage rate of $500 per worker.

It calculates that the marginal cost per day of hiring an additional worker would be $702.

By how much would the daily wage rate per worker have to be increased to attract an extra worker?

A $2 **B** $70.20 **C** $202 **D** $702

6 A trade union seeks to increase the wages that a firm pays to its workers while at the same time avoiding any job losses.

What will weaken the union's negotiating position?

A Capital and labour are close substitutes.

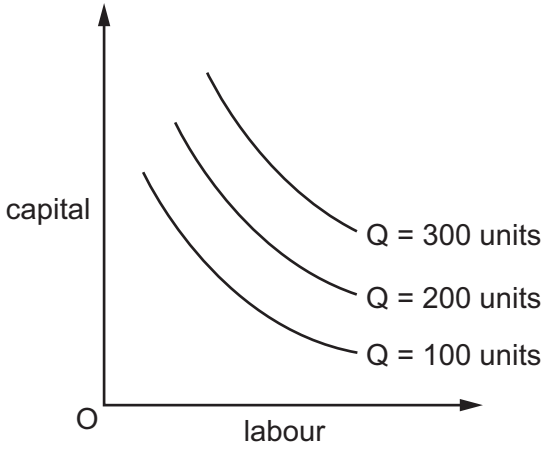
B The firm enjoys monopsony power in a labour market.

C The demand for the good produced by the firm is price-inelastic.

D The supply of labour to the firm is highly inelastic.

7 A firm employs two factors of production, capital and labour.

The curves in the diagram show the different combinations of capital and labour a firm needs to produce given levels of output.



What does the diagram show?

A the firm's long-run production function

B the firm's long-run total cost function

C the firm's short-run production function

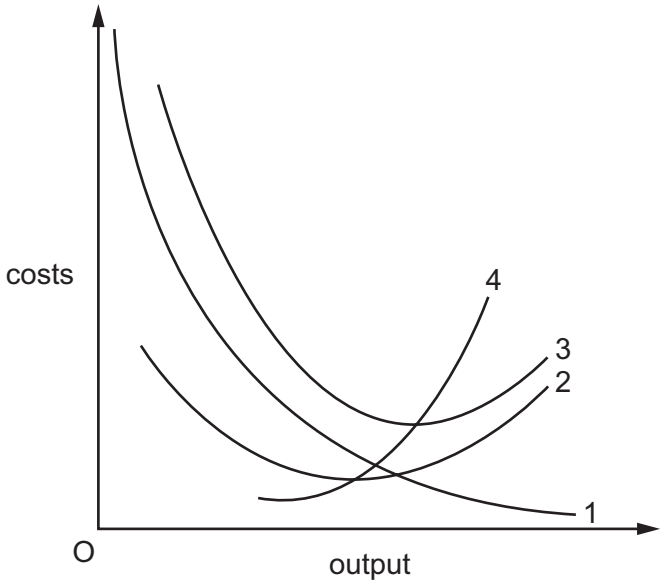
D the firm's short-run total cost function

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8 What will be the effect on price and output of a subsidy on each item produced by a profit maximising monopolist?

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

9 The diagram shows the short-run cost curves of a firm.



Which statement is correct?

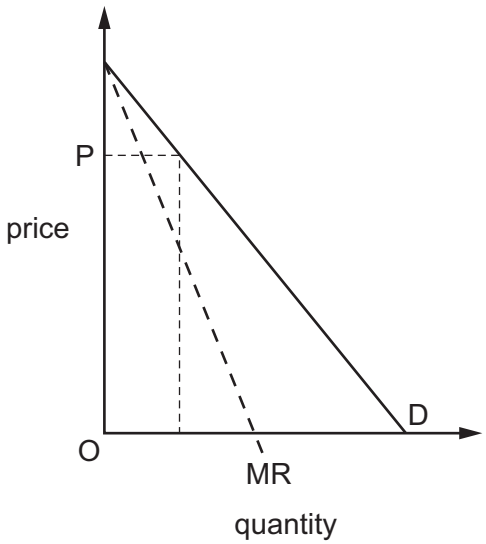
A Curve 1 is the marginal cost curve.

B Curve 2 is the average variable cost curve.

C Curve 3 is the average fixed cost curve.

D Curve 4 is the average total cost curve.

10 The diagram shows a firm's demand curve and its marginal revenue curve.



What is the approximate price elasticity of demand at price P?

A 0.25 **B** 0.5 **C** 1 **D** 3

11 What determines the contestability of a market?

A the costs of entry and exit

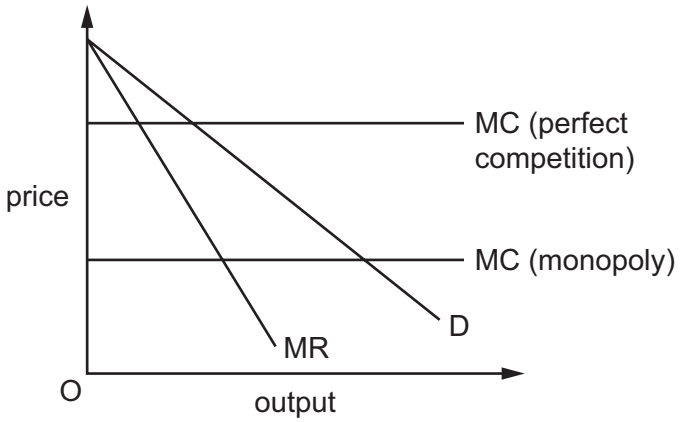
B the degree of differentiation of the product

C the number of firms in the industry

D the price elasticity of demand for the product

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12 The diagram shows the change in an industry's cost of production when it moves from perfect competition to monopoly. There is no change in the demand for the industry's product.



What effect will the change in market structure in this industry have on price, output and consumer surplus?

	price	output	consumer surplus
A	increase	increase	reduce
B	increase	reduce	reduce
C	reduce	increase	increase
D	reduce	reduce	increase

13 A firm decides to maximise sales revenue rather than profits.

What is likely to be one of the consequences of this decision?

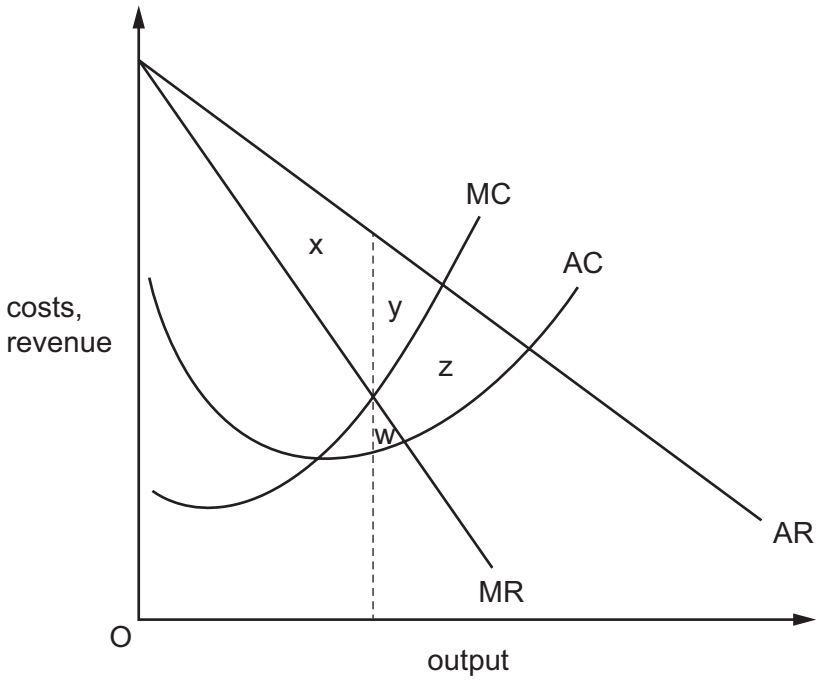
A an increase in the price of the firm's product

B a reduction in the price of the firm's shares

C a reduction in the firm's market share

D a reduction in the number employed by the firm

14 The diagram shows the cost and revenue curves of a profit-maximising monopolist.



Which area measures the deadweight loss arising from the exercise of monopoly power?

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

15 Income inequality can be measured by the Gini coefficient. On a scale of 0 to 100, the higher the value the greater the inequality.

The table below shows three Gini coefficient values for four OECD countries. The first is from wages, the second when government welfare payments are included and the third when welfare payments and government health and education spending are included.

In which country did welfare payments make the greatest contribution to income redistribution?

	inequality after wages from work	inequality after wages and welfare payments	inequality after wages, welfare payments and health and education spending
A	36.8	25.9	18.1
B	40.5	31.3	24.8
C	40.6	26.1	22.3
D	45.3	37.0	30.3

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16 What is an advantage of means-tested benefits over universal benefits?

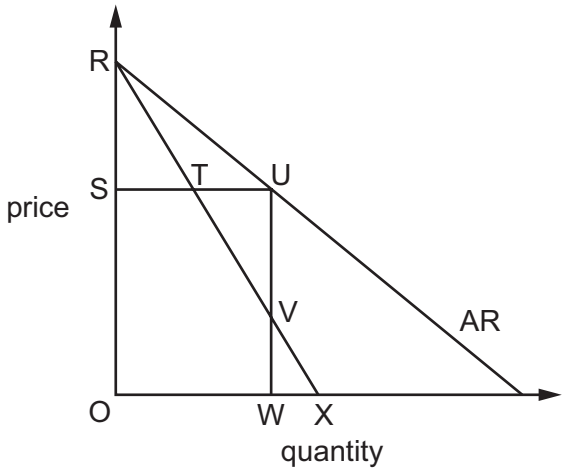
A an increase in the percentage of those who take up benefits for which they are eligible

B a reduction in the rate at which benefits are withdrawn as households' incomes increase

C a reduction in the poverty trap

D the targeting of benefits on those in greatest need

17 A monopolist has a marginal revenue curve shown in the diagram by RTVX.



What will be the monopolist's new marginal revenue curve if the government introduces a maximum price, OS?

A RTVW **B** RUVX **C** STVX **D** SUVX

18 The information in the table is taken from a country's national income accounts.

	$ million
national income	1000
consumer spending	750
investment spending	100
government spending on goods and services	170
taxation	110
imports	120

What is the value of exports?

A $100 million **B** $120 million **C** $190 million **D** $210 million

19 The table shows a government's expenditure and its tax revenues over the period 2010-2013.

	2010	2011	2012	2013
government expenditure ($ billion)	250	260	280	280
government tax revenue ($ billion)	260	260	270	275

What impact did the changes in the government's fiscal balance have on the national debt and on aggregate expenditure?

		impact on national debt	impact on aggregate expenditure
A	2010-2011	no change	no change
B	2011-2012	increase	raise
C	2012-2013	decrease	lower
D	2012-2013	increase	raise

20 What is **not** a leakage from the circular flow of income?

A expenditure on foreign goods

B indirect taxes

C undistributed profits

D unemployment benefits

21 In a closed economy with no government, an increase in investment of $100 million results in an increase in **consumption** of $300 million.

What is the marginal propensity to consume?

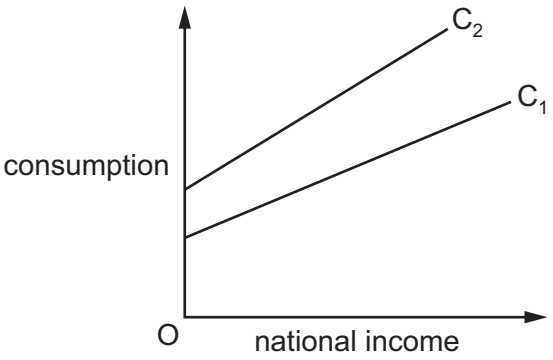
A $\frac{1}{5}$ **B** $\frac{1}{4}$ **C** $\frac{3}{4}$ **D** $\frac{4}{5}$

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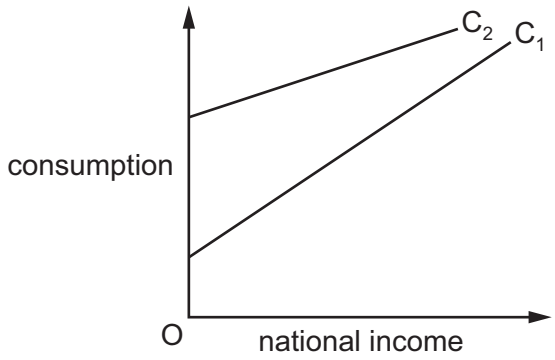
22 A government increases the rate of unemployment benefit.

Which diagram shows the resulting shift (from C_1 to C_2) in the consumption function?

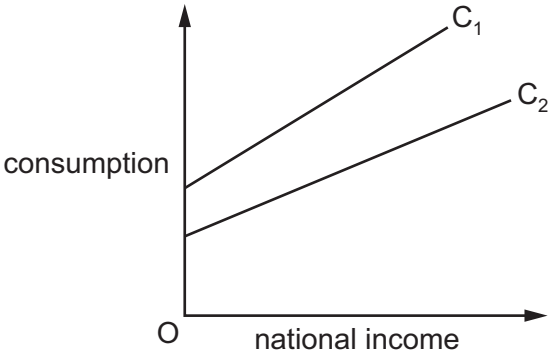
A



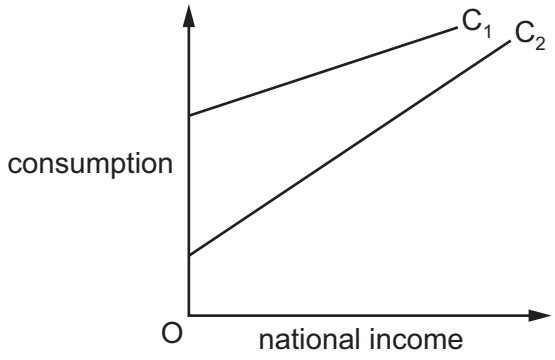
B



C



D



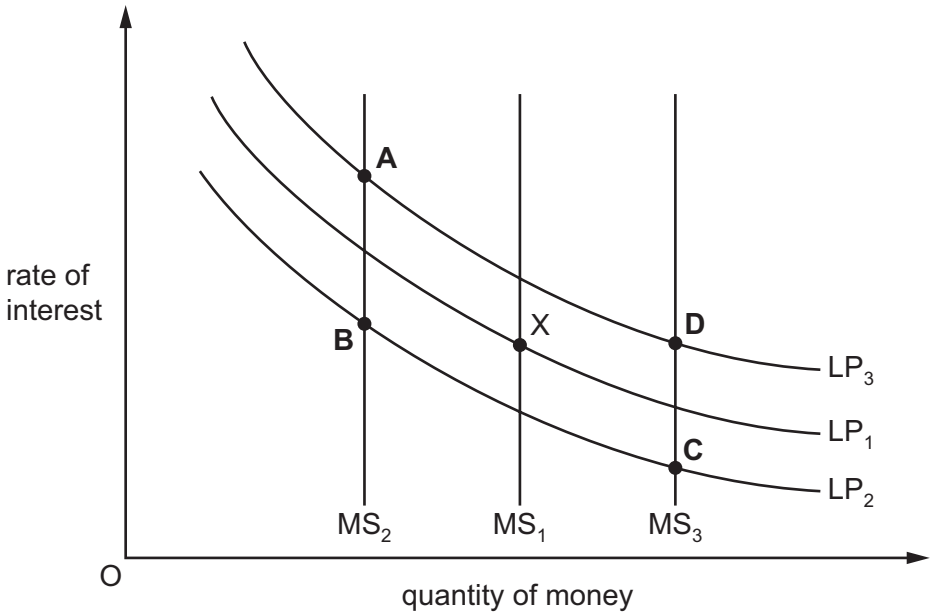
23 Assuming a constant income velocity of circulation of money, if real output grows by 2%, and the rate of growth of the money supply is 5%, what will be the approximate change in the price level?

A –3% **B** +3% **C** +5% **D** +7%

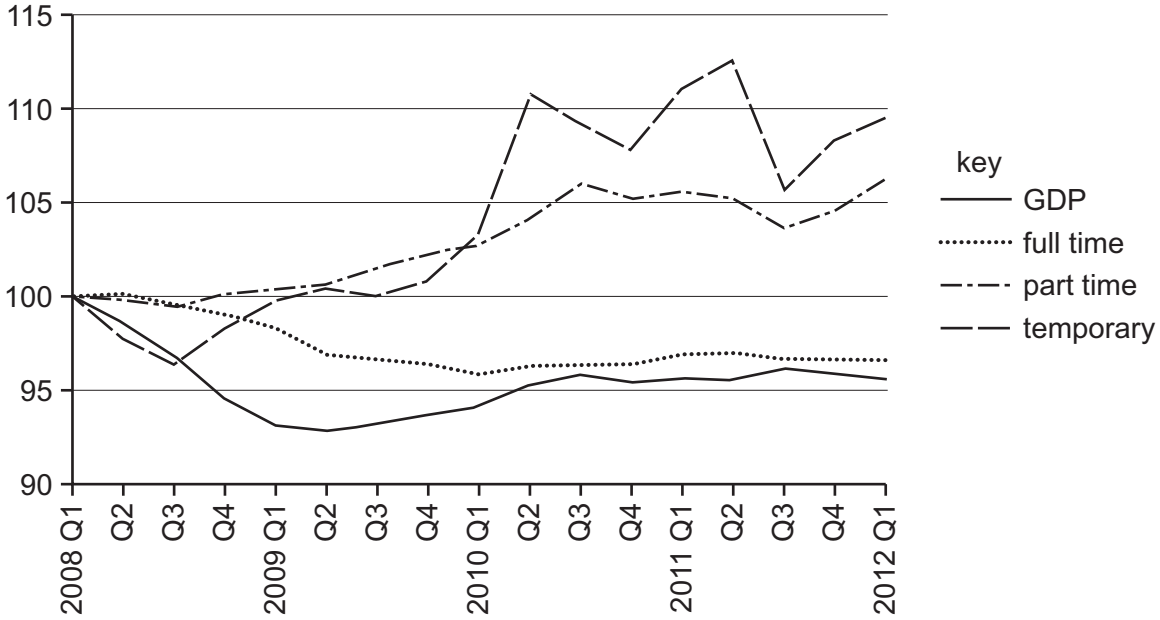
24 The diagram shows three different levels of the supply of money (MS) and three liquidity preference demand for money curves (LP). The initial equilibrium is at point X.

There is a decrease in the level of money income and at the same time there is an expansion in bank credit.

Which point could be the new equilibrium point?



25 The graph shows the changes (expressed as an index) in employment and in GDP in the United Kingdom between 2008 and 2012.



What can be concluded from the graph?

A The number in full-time jobs as a percentage of total employment fell over the period.

B The total number in employment increased over the period.

C There was a fall in the number unemployed over the period.

D There was an increase in GDP per worker over the period.

26 What is usually a characteristic of low income developing countries?

A an absence of government intervention in the economy

B low birth rates

C low tertiary sector output as a percentage of GDP

D zero tariffs on imports

27 Which combination of fiscal and monetary policy could be used to reduce both the level of unemployment and the government budget deficit in an economy?

	fiscal policy	monetary policy
A	contractionary	expansionary
B	contractionary	unchanged
C	expansionary	contractionary
D	unchanged	contractionary

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28 What is likely to result from foreign direct investment in developing economies?

A a reduction in local wage levels

B a reduction in tax revenues in developing economies

C a reduction in the range of consumer goods available to the local population

D a worsening of net income flows from investments

29 Which combination of changes is most likely to result in the short run in a fall in a country's inflation rate?

	exchange rate	indirect taxes
A	higher	higher
B	higher	lower
C	lower	higher
D	lower	lower

30 A country has a fixed exchange rate.

Which combination of circumstances would be most likely to cause the country's government to reduce taxation and lower interest rates?

A demand inflation and a balance of payments deficit

B demand inflation and low investment

C unemployment and a balance of payments surplus

D unemployment and imported inflation

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