Cambridge International A Level

Cambridge International Examinations
Cambridge International Advanced Level

ECONOMICS **9708/32**

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)

9607117056

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.

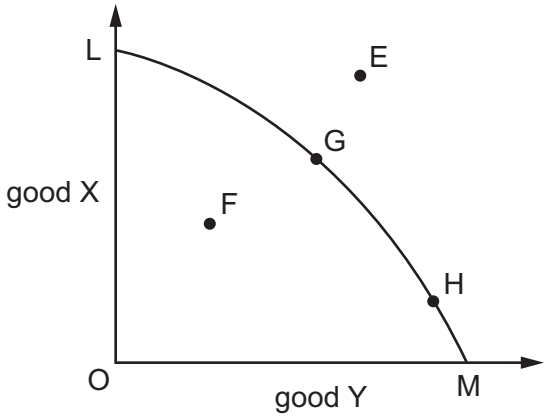
Read the instructions on the Answer Sheet very carefully.

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 **12** printed pages.

© UCLES 2014

1 In the diagram, LM is an economy's production possibility curve.



Which statement must be correct?

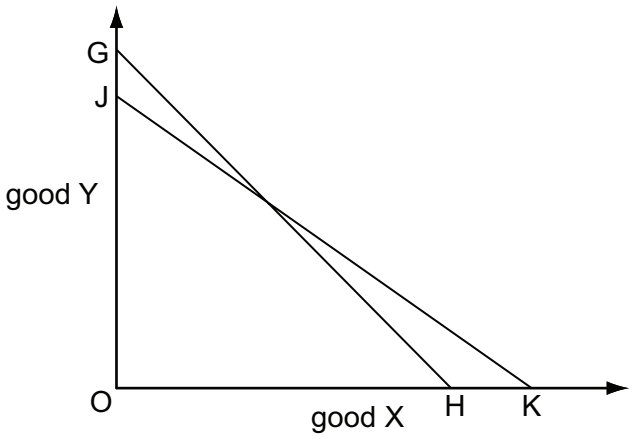
A F is productively inefficient.

B G and H are productively efficient but economically inefficient.

C Only E is economically efficient.

D Only G is productively efficient.

2 In the diagram, a consumer's initial budget line is JK.



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

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

© UCLES 2014

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

number of workers	1	2	3	4	5
number of chairs produced	6	17	27	32	30

Diminishing marginal returns to labour will set in when

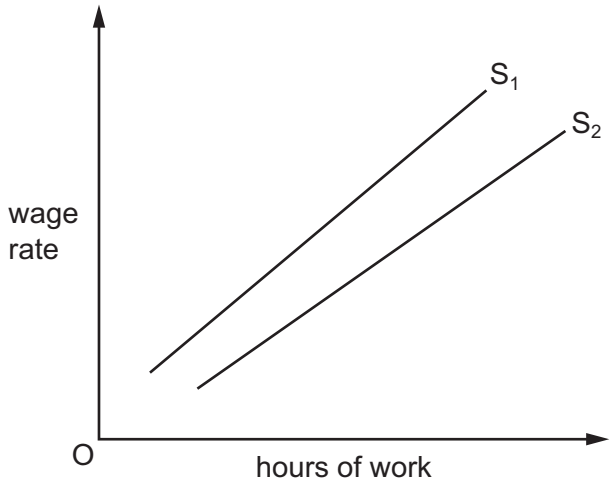
A the second worker is employed.

B the third worker is employed.

C the fourth worker is employed.

D the fifth worker is employed.

4 In the diagram S_1 is an individual worker's supply of labour curve.



What could cause the curve to shift from S_1 to S_2?

A a decrease in the hourly wage rate

B a decrease in work satisfaction

C a decrease in the opportunity cost of leisure

D a decreased preference for leisure

5 The table shows the marginal revenue product of labour schedule of a profit-maximising firm producing under conditions of perfect competition.

number of workers	1	2	3	4	5	6	7
marginal revenue product ($)	125	130	135	140	135	130	125

If the wage is $135, what is the maximum number of workers the firm will employ?

A 3 **B** 4 **C** 5 **D** 6

6 In 2004 union officials and businessmen in Argentina agreed to increase the minimum wage from 350 to 450 pesos.

In which circumstances would such a rise increase employment?

A Investment increases at a more rapid rate than consumption.

B Labour and product markets are competitive.

C The higher wage rate produces a proportionately greater rise in labour productivity.

D The minimum wage is set above the equilibrium level.

7 The table gives information about a firm's costs over a given range of output in the short run and in the long run.

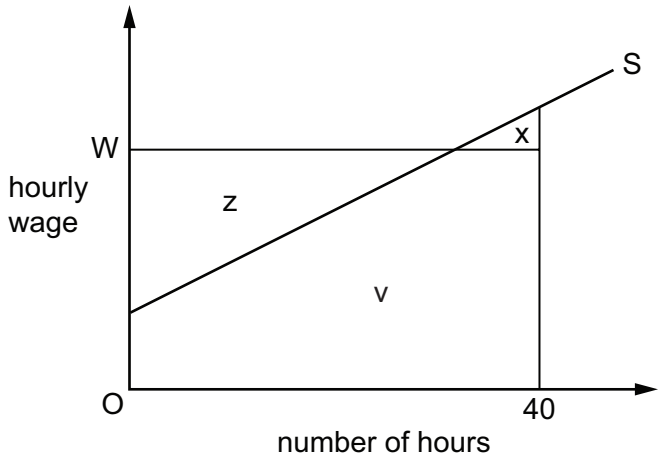
output (thousand)	21	22	23	24	25
short-run average cost ($)	20	19	18	17	16
long-run average cost ($)	12	13	14	15	16

Which conclusions can be drawn about the characteristics of production over this output range in the short run and in the long run?

	short run	long run
A	decreasing returns to scale	diminishing returns
B	economies of scale	diminishing returns
C	increasing returns	decreasing returns to scale
D	increasing returns	economies of scale

© UCLES 2014

8 The diagram shows an individual worker's supply curve of labour.



The hourly wage is W and the worker is required to work a standard 40-hour week.

Which area measures the minimum amount per week he would be willing to accept?

A v **B** v + x **C** v – x **D** z – x

9 The table shows a firm's marginal costs.

output	marginal cost ($)
1	40
2	30
3	20
4	30
5	40

The average fixed cost of producing 5 units is $6.

What is the total cost of producing 5 units?

A $46 **B** $70 **C** $190 **D** $230

10 What could explain why the proportion of total employment in an economy accounted for by small firms decreases?

A a trend towards the use of sub-contractors to produce specialised components

B growing technical economies of scale in manufacturing

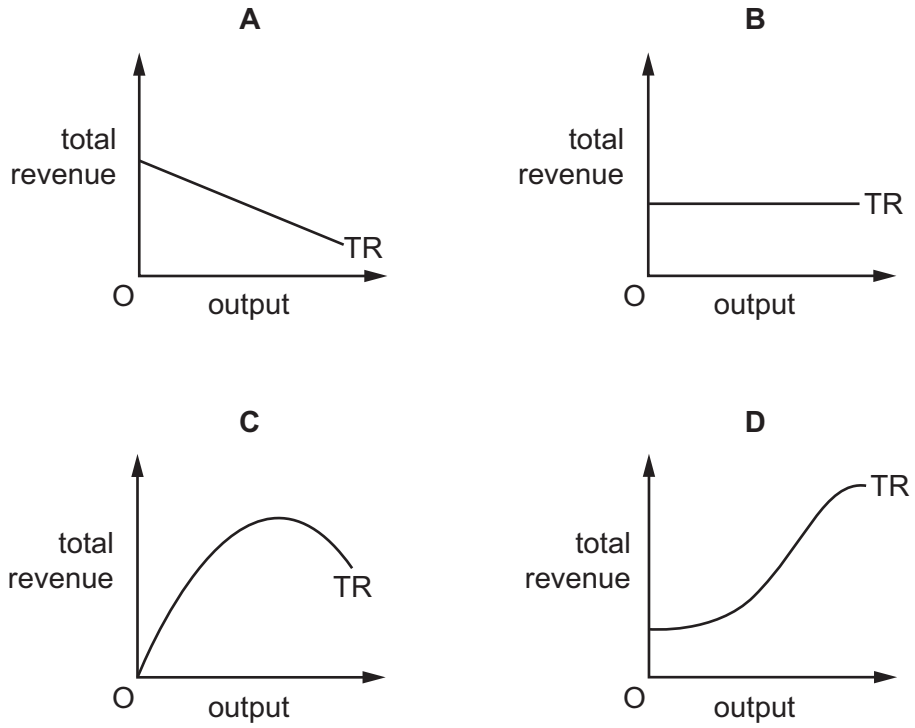
C growth of the service sector and a decline in manufacturing

D the opening up of specialist markets as real incomes rise

© UCLES 2014

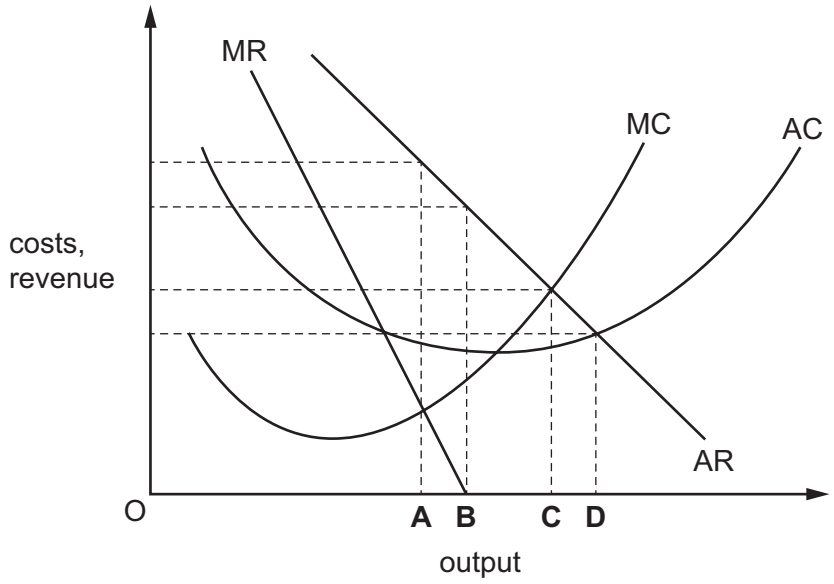
11 A monopolist faces a downward-sloping straight-line demand curve.

Which diagram shows his total revenue curve (TR)?



12 The diagram shows the cost and revenue curves of a monopolist.

Which output will the firm produce if its aim is to maximise sales revenue?



13 A country's government reduces the specific tax on packets of cigarettes.

What could explain why this leads to an increase in tax revenue from cigarette sales?

A Consumers switch to dearer brands.

B The demand for cigarettes is price-inelastic.

C The price of cigarettes falls by less than the reduction in tax.

D There is a reduction in illegal imports of cigarettes.

14 Which is **not** a policy designed to correct market failure?

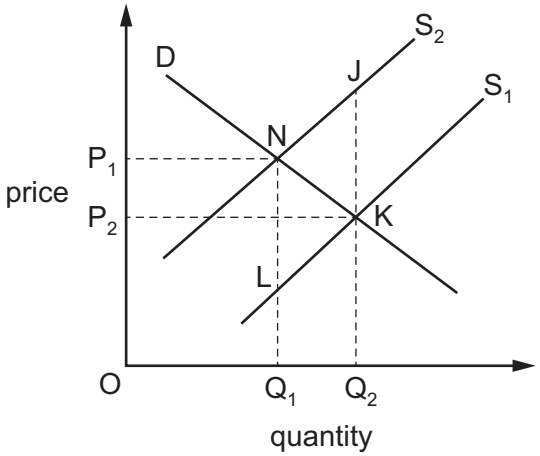
A competition policy

B free inoculation against infectious diseases

C minimum wage policy

D regulations to limit river pollution

15 In the diagram the imposition of a specific tax causes an industry's supply curve to shift from S_1 to S_2.



Which area measures the resulting deadweight loss to society given that there was no market failure initially?

A NLK **B** JKN **C** P_1NKP_2 **D** Q_1Q_2JN

16 Over a given period, money income in an economy increased by 6%. Over the same period, prices rose on average by 4%.

What can be deduced from this?

A Real income increased by 2%.

B The income velocity of circulation decreased by 2%.

C The money supply increased by 10%.

D The volume of output decreased by 2%.

17 A closed economy has a banking system consisting of a single bank. The bank operates with a cash ratio of 10%.

Customers deposit $20 000 in cash.

Assuming subsequent net withdrawals of cash from the banking system are zero, what is the maximum amount of loans that the bank can create?

A $2000 **B** $18 000 **C** $180 000 **D** $200 000

18 What will cause the level of investment to fall according to the accelerator model?

A a decrease in business confidence

B a decrease in the rate of growth of national income

C an increase in the price of capital equipment

D an increase in the rate of interest

19 In a closed economy with no government, consumption is 4/5 of income at all levels of income.

The present equilibrium level of income is $220 million.

The full employment level of income is $240 million.

By how much would investment have to increase to reach full employment?

A $2 million **B** $4 million **C** $16 million **D** $20 million

20 Other things being equal, what will result in a decrease in aggregate demand?

A a decrease in interest rates

B a decrease in the balance of trade deficit

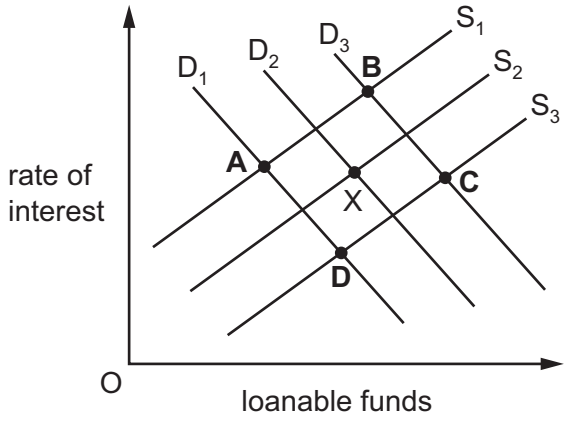
C a decrease in the government's budget deficit

D a decrease in the household saving ratio

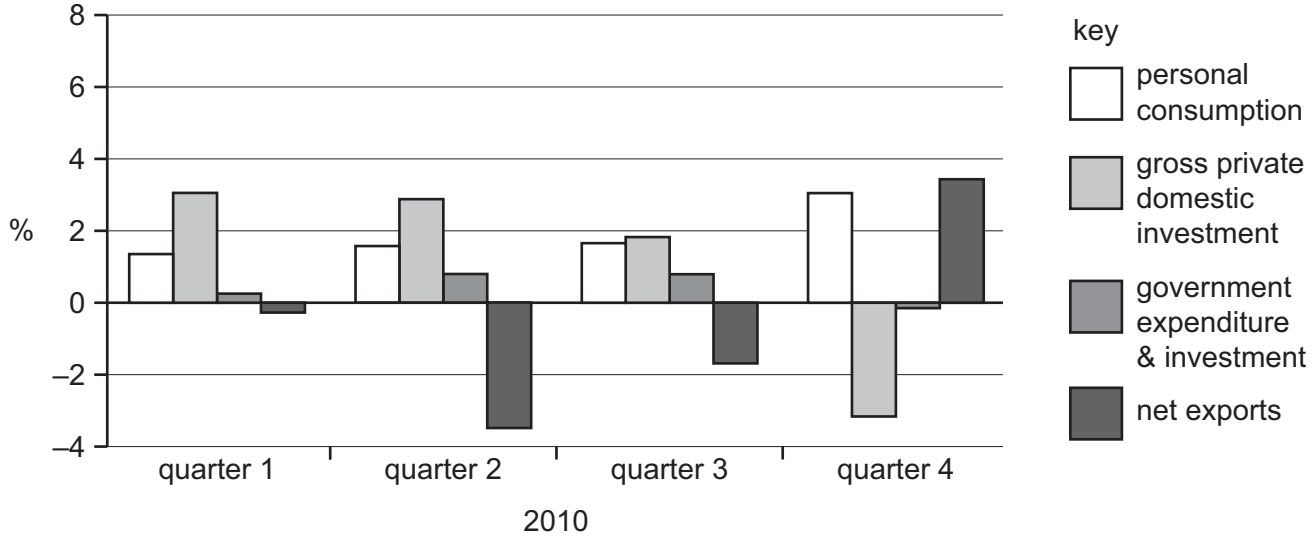
© UCLES 2014

21 The diagram shows the market for loanable funds. The market is in equilibrium at point X.

What could be the new equilibrium point if there was a decline in business confidence and an increase in bank lending?



22 The diagram shows the contribution of four components of aggregate demand to the change in US real GDP in the four quarters of 2010.



Which component made the greatest contribution and which component the least contribution to the positive growth in real GDP in 2010?

	greatest contribution	least contribution
A	gross private domestic investment	government expenditure and investment
B	gross private domestic investment	net exports
C	personal consumption	government expenditure and investment
D	personal consumption	net exports

23 An economic recession leads to an increase in unemployment.

Why might this cause a fall in an economy's long-term growth rate?

A It is impossible to regain consumption lost in recession.

B Rising unemployment is likely to raise real wage levels.

C Social attitudes become less accepting of unemployment.

D There will be a harmful effect on human capital.

24 The table shows the annual income thresholds per person used by the World Bank to classify countries according to their nominal Gross National Income (GNI) in 2000 and 2010.

	2000	2010
low income	$755 or less	$1005 or less
lower middle	$756 to $2995	$1006 to $3975
upper middle	$2996 to $9625	$3976 to $12 275
high income	$9266 or more	$12 276 or more

What could explain the changes recorded in the table?

A Income inequality between countries increased between 2000 and 2010.

B On average, real GNI in low income countries increased by roughly one third between 2000 and 2010.

C On average, world prices increased by roughly one third between 2000 and 2010.

D Some of the countries in the upper middle income category in 2000 were re-classified as high income countries in 2010.

25 What is likely to result in an increase in GDP per worker in a developing economy?

A an increase in the employment rate

B an increase in the population of working age

C a shift from working in subsistence agriculture to working in manufacturing

D a shift from working in manufacturing to working in subsistence agriculture

© UCLES 2014

26 It is often argued that the present rate of economic growth will soon lead to the exhaustion of reserves of material resources, such as minerals and oil.

What does this argument fail to take into account?

A the drawbacks of present GDP levels as an indicator of the 'happiness' of the population

B the effect of increasing resource prices on the discovery and exploitation of new reserves

C the right of future generations to enjoy present standards of living

D the role of education in economic development

27 What will be the impact of an increase in marginal tax rates?

A an increase in the propensity to save

B an increase in the value of the investment multiplier

C a strengthening of work incentives

D a strengthening in the operation of automatic stabilisers

28 A central bank increases interest rates in order to control inflation.

What is likely to increase as a result of this?

A firms' sales revenue

B investment expenditure

C net capital outflows

D the exchange rate

29 What is most likely to result from a devaluation of the £ sterling?

A an increase in foreign direct investment in the UK by global manufacturing firms

B an increase in the number of UK residents taking holidays abroad

C an increase in the number of UK students applying for places in North American universities

D an increase in the supply of foreign workers seeking temporary employment over the summer in the UK

© UCLES 2014

30 A fair trade scheme encourages consumers in developed countries to buy food produced by farming cooperatives in developing countries at a higher price than that charged by commercial firms.

Why might this be harmful to economic development?

A It will cause a worsening in the terms of trade of developing economies.

B It will reduce the amount of government aid provided to developing economies.

C It will reduce the prices subsistence farmers receive for their produce.

D It will slow the process of economic diversification in developing economies.

Copyright Acknowledgements:

Question 22 © Bureau of Economic Analysis.

Permission to reproduce items where third-party owned material protected by copyright is included has been sought and cleared where possible. Every reasonable effort has been made by the publisher (UCLES) to trace copyright holders, but if any items requiring clearance have unwittingly been included, the publisher will be pleased to make amends at the earliest possible opportunity.

Cambridge International Examinations is part of the Cambridge Assessment Group. Cambridge Assessment is the brand name of University of Cambridge Local Examinations Syndicate (UCLES), which is itself a department of the University of Cambridge.