Cambridge International A Level

Cambridge International Examinations
Cambridge International Advanced Level

ECONOMICS **9708/31**

Paper 3 Multiple Choice (Supplement) **May/June 2015**

1 hour

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

4751622093

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 **13** printed pages and **3** blank pages.

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1 An economy reallocates resources and moves along its production possibility frontier.

It increases production of necessity goods and reduces production of luxury goods.

The marginal utility of the consumers of the additional necessity goods produced is greater than the marginal utility of the consumers of the luxury goods that are no longer produced.

What is the effect on the economic efficiency of the economy?

	productive efficiency	allocative efficiency
A	increases	increases
B	increases	unchanged
C	unchanged	increases
D	unchanged	unchanged

2 A household which spends all of its income on bananas and apples makes the following purchases.

fruit	price per unit ($)
bananas	2.50
apples	1.00

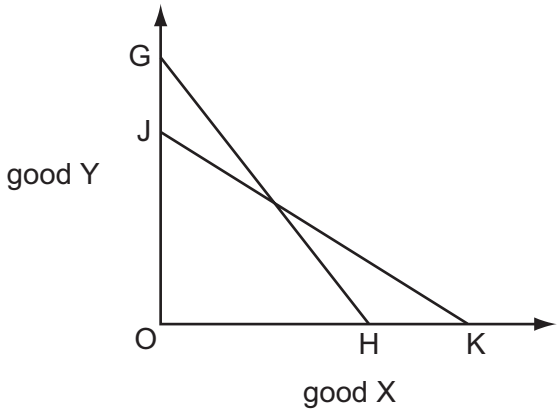
The household derives twice as much utility from the last unit of bananas consumed as from the last unit of apples consumed.

What should the household do to maximise utility from the consumption of these fruits?

	consumption of bananas	consumption of apples
A	decrease	increase
B	increase	decrease
C	no change	decrease
D	no change	increase

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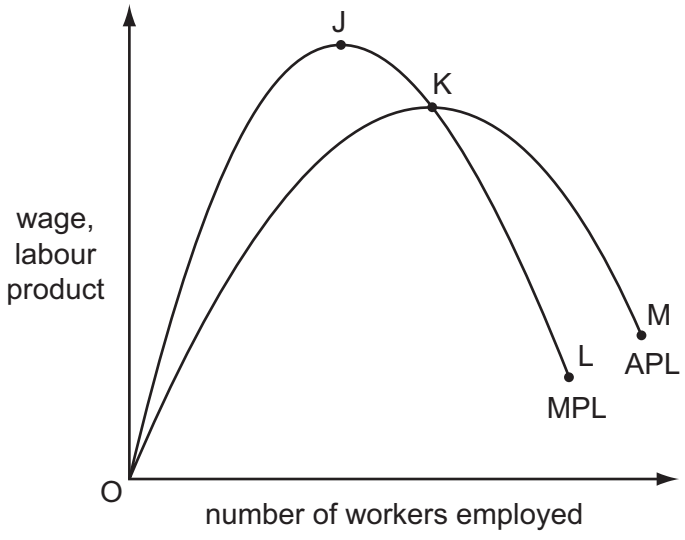
3 The curve JK in the diagram is a consumer's initial budget line.



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

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

Which segment of the curves represents the firm's demand for labour curve?

A OJ **B** JK **C** KL **D** KM

5 The table shows the main characteristics of employment in two alternative occupations.

	occupation X	occupation Y
average annual wage	$80 000	$100 000
number of weeks annual leave	10 weeks	5 weeks
average length of working week	44 hours	48 hours
job security	low	high
length of training course to obtain job qualification	2 years	1 year

What can definitely be deduced from the table?

A Occupation Y has greater non-financial advantages than occupation X.

B There will be more competition for places on training courses to enter occupation X than occupation Y.

C Those who choose occupation X attach more importance to leisure activities than those who choose occupation Y.

D Those who choose occupation Y attach greater importance to job security than those who choose occupation X.

6 A trade union seeks to increase the wages a firm pays to its workers while at the same time preserving jobs.

What will strengthen the union's negotiating position?

A Capital and labour are close substitutes.

B The demand for the good produced by the firm is price elastic.

C The supply of labour to the firm is perfectly elastic.

D The trade union operates in a monopsonistic labour market.

7 When a firm increases all its inputs by 300%, its output increases by 400%.

What does this illustrate?

A diseconomies of scale

B increasing returns to scale

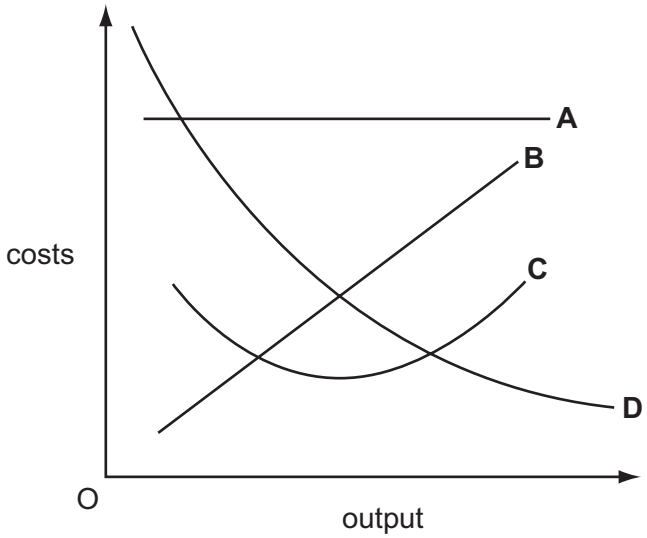
C the law of diminishing returns

D the law of variable proportions

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8 The average variable costs of a firm are constant over the relevant range of output.

Assuming that fixed costs are incurred, which curve on the diagram could be the firm's average total cost curve over this range?



9 Which is an example of an external diseconomy?

A difficulties in coordinating activities in a large organisation

B difficulties in motivating workers in a large organisation

C higher transport costs as a firm's market expands

D increased traffic congestion as industries expand

10 What makes it easier for a small firm to compete against large firms in the same industry?

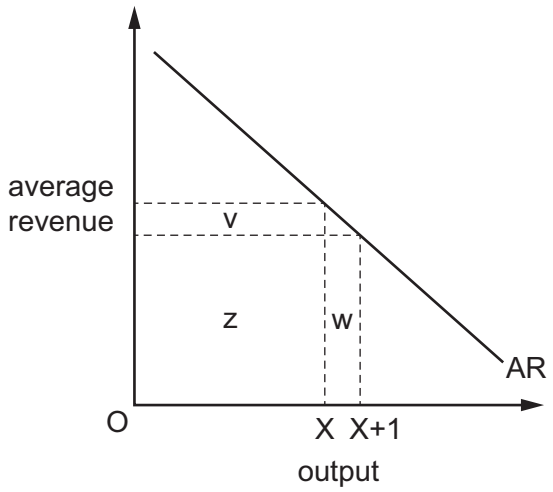
A The nature of the industry's product is highly standardised.

B The product specification demanded by each customer is different.

C There are significant barriers facing potential new entrants.

D Transport costs are low relative to the value of the product.

11 The diagram shows a firm's average revenue (AR) curve.



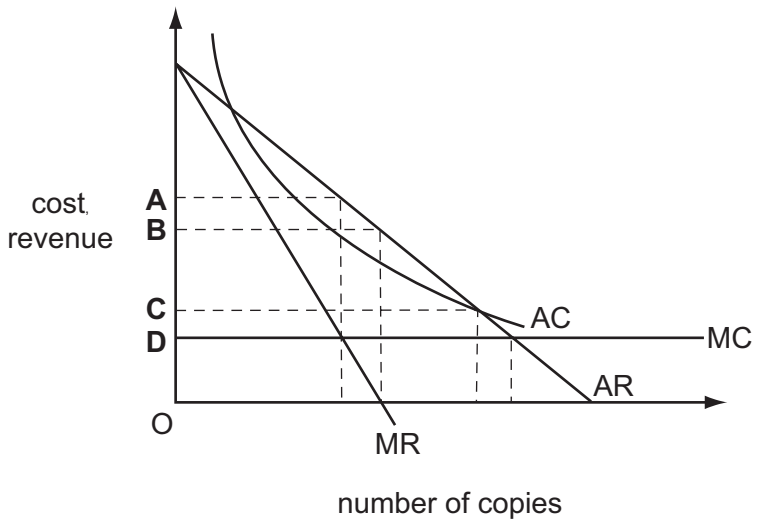
The firm currently produces output OX.

Which area(s) will measure the firm's marginal revenue if it produces an additional unit of output?

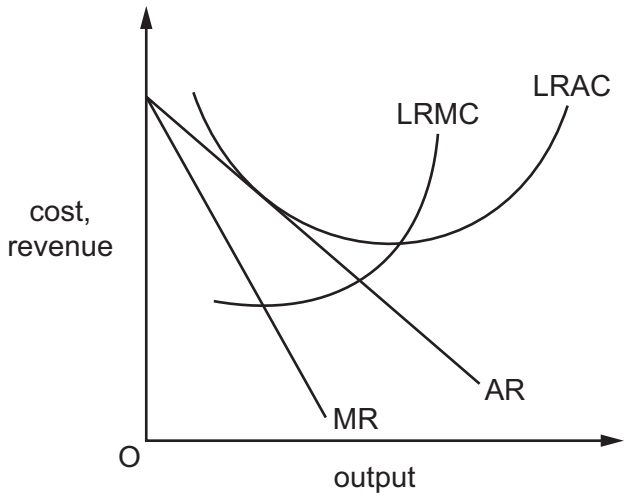
A w + v **B** w + z **C** w – v **D** w only

12 The diagram shows the cost and revenue curves for the production of a textbook.

Which price would maximise the publisher's revenue from the book?



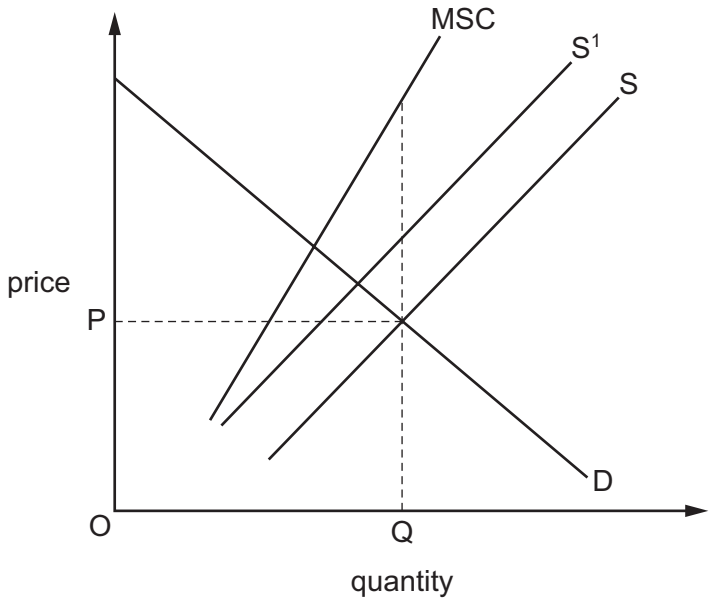
13 The diagram shows the cost and revenue curves of a monopolistically competitive firm in long-run equilibrium.



Which statements correctly describe the performance of this firm?

	the firm is operating with excess capacity	the firm is fully exploiting available economies of scale
A	no	no
B	no	yes
C	yes	yes
D	yes	no

14 In the diagram, D is the demand curve for cigarettes, S is the supply curve and MSC is the marginal social cost curve.



The introduction of a specific tax on cigarettes causes the supply curve to shift to S^1.

What are likely to be the impacts of the tax on economic efficiency and the tax system?

	economic efficiency	tax system
A	improves	less regressive
B	improves	more regressive
C	worsens	less regressive
D	worsens	more regressive

15 Which combination of policy changes is **most** likely to redistribute income from the richest households to the poorest households in an economy?

	excise duties	means-tested benefits	universal benefits
A	decrease	increase	decrease
B	decrease	increase	increase
C	increase	decrease	increase
D	increase	decrease	decrease

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16 In order to reduce milk production, all producers are given a quota which limits the amount of milk each producer is allowed to produce.

Initially, the quotas cannot be traded.

What will be the effect on the total volume of milk production and on the overall profits of milk producers if they are allowed to trade the quotas among themselves?

	effect on total volume	effect on profits
A	increase	increase
B	increase	decrease
C	unchanged	increase
D	unchanged	decrease

17 During a year, a country's national income in money terms increased by 5%, prices increased by 4% and the total population increased by 2%.

What was the approximate change in real income per head?

A a decrease of 1%

B a decrease of 2%

C an increase of 1%

D an increase of 2%

18 Which represents an injection into an economy's circular flow of income?

A a balance of trade deficit

B a government budget deficit

C household saving

D the retained profits of private companies

19 In a closed economy with no government sector, investment is increased by $100 million and real income increases by $500 million.

What is the marginal propensity to consume?

A 0.2 **B** 0.4 **C** 0.8 **D** 5.0

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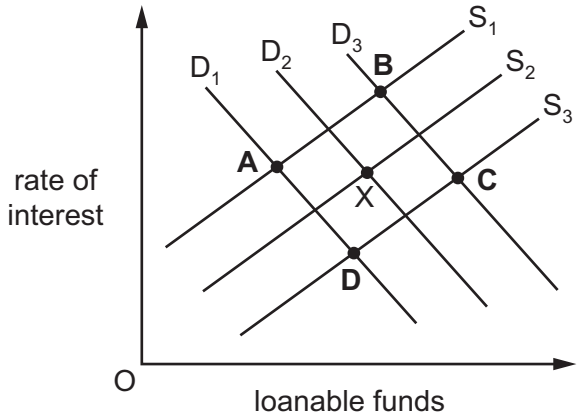
20 The income velocity of circulation is equal to 2.0.

If the rate of growth of the money supply is 8% and the average price level increases by 4%, what will be the change in real output (transactions)?

A +4% **B** +8% **C** +12% **D** +16%

21 The diagram shows the demand curves and supply curves of loanable funds. The market is in equilibrium at point X.

What would be the new equilibrium point if there were an increase in business confidence and a reduction in the propensity to save?



22 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

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

A an appreciation in the country's currency

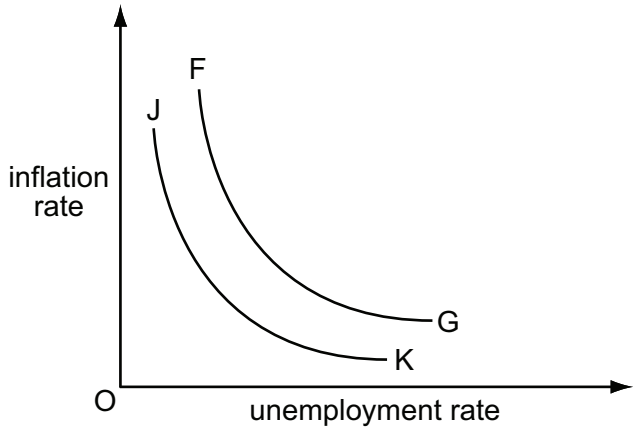
B an improvement in the average citizen's quality of life

C an improvement in the country's trade balance

D an increase in the country's real GDP

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24 The diagram shows the relationship between the rate of inflation and the rate of unemployment.



What would cause the curve FG to shift to JK?

A a lower exchange rate

B a lower expected rate of inflation

C an increase in government expenditure

D a rise in the level of employment

25 What is the **best** measure of the economic cost of an increase in unemployment?

A the additional social security benefits paid plus the loss of tax revenue from newly unemployed workers

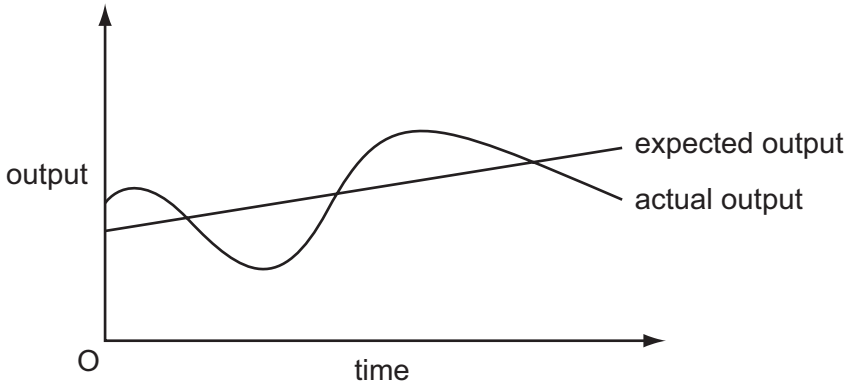
B the loss of potential exports

C the money value of the additional social security benefits paid

D the output the unemployed workers could have produced

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26 The diagram shows the actual output and expected output of an economy.



What would help to reduce the divergence of actual output from expected output?

A a balanced budget

B a stable exchange rate

C automatic stabilisers

D stable interest rates

27 In an economy with a fixed exchange rate, which combination of policies is likely to be most effective at tackling both a growing current account deficit on the balance of payments and rising inflationary pressure?

A a budget deficit and higher interest rates

B a budget deficit and lower interest rates

C a budget surplus and higher interest rates

D a budget surplus and lower interest rates

28 The table gives details of a government's budget over two years.

	2012 / 13 (US$ millions)	2013 / 14 (US$ millions)
government revenue	2 630 000	3 730 000
government spending	3 000 300	3 770 000

What happened to government finances between 2012 / 13 and 2013 / 14?

A The annual budget deficit rose.

B The annual budget surplus fell.

C The national debt fell.

D The national debt rose.

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29 In an open economy, what is most likely to cause the money supply to fall?

A a balance of payments surplus

B an increase in the ratio of cash reserves to total deposits in the commercial banking sector

C central bank bond purchases from the non-bank private sector

D government borrowing from the commercial banking sector

30 A government responds to a fall in national income by increasing its spending. It finances the increased spending by issuing bonds to the non-bank private sector.

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

A a crowding out of private investment

B a decreased balance of trade deficit

C a reduction in the money supply

D an increase in the cash reserves of the commercial banks

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