Cambridge International A Level

Cambridge International Examinations
Cambridge International Advanced Level

ECONOMICS **9708/32**

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)

* 2 6 2 4 5 3 0 5 8 8 *

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 **11** printed pages and **1** blank page.

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1 What need **not** pose a potential threat to allocative efficiency in a market economy?

A externalities

B differentiated products

C monopolistic elements

D perfect knowledge

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

3 For the purposes of measuring the income effect of a change in the price of a good, what is **not** held constant?

A consumer preferences

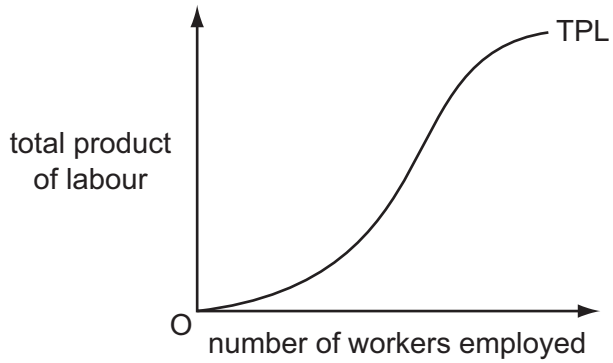
B relative prices

C the consumer's money income

D the consumer's real income

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4 The diagram shows the total product of labour (TPL) curve for a firm whose only variable factor input is labour.



What explains the shape of the curve?

A diminishing marginal disutility of work

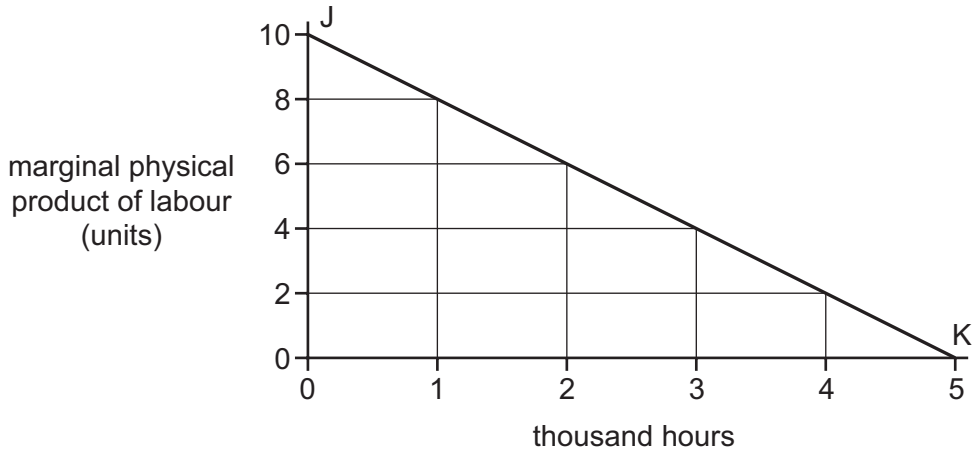
B increasing marginal disutility of work

C technical diseconomies of scale

D the law of variable proportions

5 A firm operates under perfect competition in both product and factor markets with labour as the only variable factor input.

In the diagram, the line JK shows the relationship between the marginal physical product of labour and the hours worked:

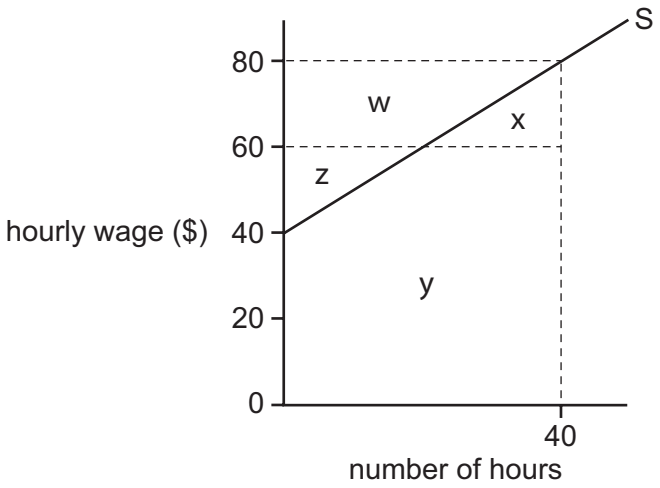


When the price of the product is $1.60, the firm uses 3000 hours of labour.

What is the hourly wage?

A $0.40 **B** $2.40 **C** $5.60 **D** $6.40

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



He is offered a job which would require him to work a standard 40-hour week.

Which area measures the lowest amount he would have to be paid per week to get him to accept this job offer?

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

7 What relationship does a firm's long-run production function describe?

A the firm's output and the quantities of factor inputs employed

B the firm's long-run average cost of production and the level of output

C the firm's long-run average cost of production and the quantities of factor inputs employed

D the prices of factor inputs and the quantities of factor inputs employed

8 The table shows a firm's total and marginal costs.

output	total cost ($)	marginal cost ($)
1	340	40
2	375	35
3	400	25
4	435	35
5	475	40

What is the average fixed cost of producing 6 units?

A $50 **B** $60 **C** $180 **D** $300

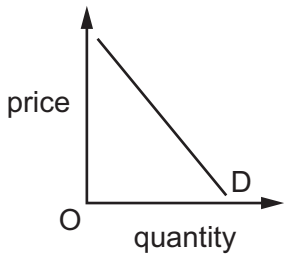
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9 A firm experiences external diseconomies of scale and decreasing returns to scale.

How would these changes be illustrated on a cost curve diagram?

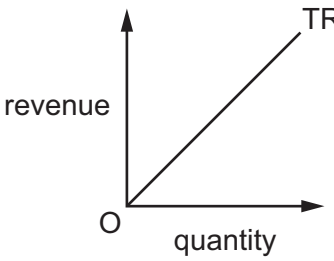
	shift in long-run average cost curve	movement along long-run average cost curve
A	downward	downward
B	downward	upward
C	upward	downward
D	upward	upward

10 The diagram shows the demand curve for a firm's product.

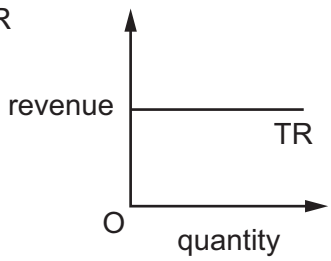


Which diagram depicts the shape of the firm's corresponding total revenue (TR) curve?

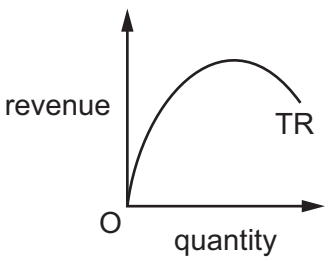
A



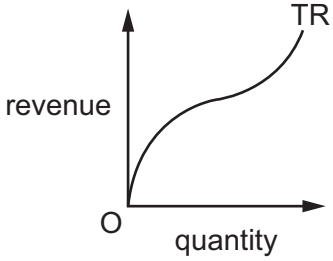
B



C



D



11 The firms in an industry all produce a homogeneous product, but each firm is able to influence the price it charges for its own product.

In which market structure do the firms operate?

A perfect competition

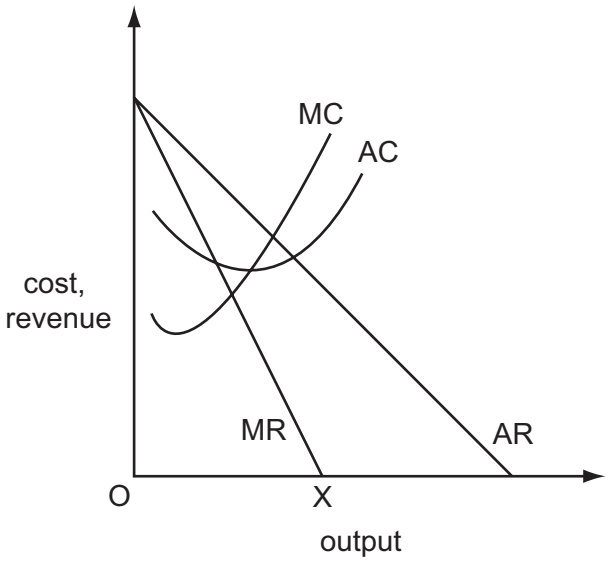
B monopolistic competition

C oligopoly

D monopoly

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



What is the firm's objective if it produces output OX?

A to achieve normal profit

B to maximise profit

C to maximise total revenue

D to minimise average cost

13 The table shows information about a profit-maximising firm.

price per unit	$1.70
fixed costs	$10 000
variable costs per unit	$1.75

What can be concluded about the firm's behaviour?

A It should close down immediately because it is not covering its average costs.

B It should close down immediately because it is not covering its variable costs.

C It should continue production in the long-run because it is covering its total costs.

D It should continue production in the short-run because it is covering its fixed costs.

14 When will a society have achieved an equitable distribution of income?

A when all individuals have equal job opportunities

B when all workers are paid wages equal to their marginal value product

C when the incomes within the society are equally distributed

D when the society believes that the distribution of income is fair

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15 The government introduces a minimum wage above the equilibrium market wage rate.

How will this affect low-paid workers?

A All those initially in employment will receive the new guaranteed minimum wage.

B Fewer of those not already in employment will enter the labour force.

C There will be an increase in the number of low-paid workers in employment.

D Some low-paid workers will lose their job.

16 A country's steel producers are members of a cartel. Each member is allocated a production quota and initially produces the maximum allowed under its quota.

What will be the effect on productive efficiency and on the industry's profits if the producers are allowed to trade the quotas amongst themselves?

	effect on productive efficiency	effect on profits
A	improvement	increase
B	improvement	no change
C	no change	increase
D	no change	no change

17 Which government policy would **not** be classified as regulation?

A bans on heroin and cocaine consumption

B compulsory wearing of seatbelts in cars and coaches

C licences for the extraction of water from lakes and rivers

D taxation of cigarettes and tobacco products

18 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.

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19 Which is **not** an injection into a country's circular flow of national income?

A inward direct investment by multinational corporations

B private gross domestic fixed capital formation

C the sale of government bonds to members of the public

D wages paid to civil servants

20 The national income is initially in equilibrium.

If there is an increase in exports, which change of equivalent value will restore national income to its initial equilibrium level?

A a decrease in imports

B a decrease in investment

C an increase in government expenditure on goods and services

D a reduction in taxation

21 In a closed economy with no government, investment increases by $400.

At the new equilibrium level of income, consumption has increased by $1200.

What is the value of the investment multiplier?

A 2 **B** 3 **C** 4 **D** 8

22 Assuming a constant income velocity of circulation of money, if the price level increases by 5% and the money supply grows by 2%, what will be the approximate change in real output (transactions)?

A –3% **B** –2.5% **C** +3% **D** +7%

23 Why will an inflationary process be brought to a halt if the money supply is held constant?

A Consumption will decrease as money incomes decline.

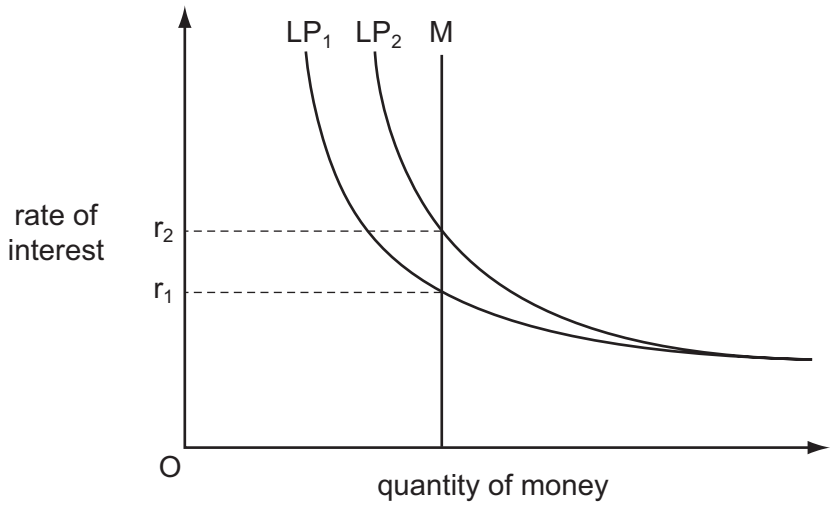
B Government expenditure will have to be reduced as government revenues decline.

C The rate of interest will rise as more money is required for transactions purposes.

D The stimulus to invest will decline as the real burden of company debt rises.

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24 The diagram shows the determination of the rate of interest in the economy, where M represents the money supply and LP represents liquidity preference.



What could cause the rise in the rate of interest from r_1 to r_2?

A an increase in national income

B an increase in the money supply

C a reduction in investment expenditure

D a reduction in the loans made by the private sector

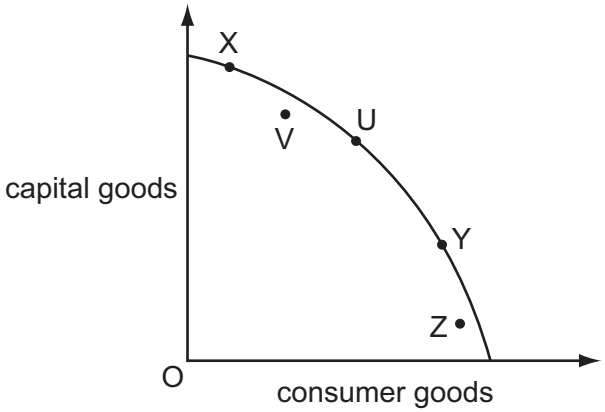
25 An economy is experiencing economic growth.

What will be the effect on its rate of inflation, level of unemployment and current account surplus?

	rate of inflation	level of unemployment	current account surplus
A	lower	lower	lower
B	raise	lower	raise
C	raise	raise	uncertain
D	uncertain	uncertain	uncertain

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26 The diagram shows a country's production possibility curve and a number of alternative production points.



Which change in the country's output would be **most** likely to lead to a fall in potential growth?

A U to V **B** U to X **C** Y to X **D** Y to Z

27 A developing country receiving foreign financial aid is **most** likely to experience economic growth in the long-run if it uses the money to

A boost welfare benefits for the poorest households.

B pay for imports of capital goods.

C reduce environmental pollution.

D reduce income tax for all households.

28 Increased borrowing by the government results in higher interest charges and this leads to less private investment expenditure.

Of what is this an example?

A an automatic stabiliser

B crowding out

C the accelerator

D the substitution effect

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29 The data below relate to a particular country for the four years shown:

Year	1	2	3	4
real GNP / head (Year 1 = 100)	100	110	121	121
life expectancy at birth (years)	65	64	65	67
% of age group enrolled in secondary education	40	38	42	42

What can definitely be concluded from these data?

A Economic growth between Year 2 and Year 3 was 11%.

B The level of economic development was better in Year 2 than in Year 1.

C There was both economic growth and an improvement in economic development between Year 2 and Year 3.

D No conclusions can be drawn as to whether the level of economic development was better in Year 4 than Year 3.

30 A government's budget is balanced at a time when the economy is fully employed, but an aggregate demand shock causes a decline in national income.

What will be the result if the government keeps its tax rates and level of spending unchanged?

A a cyclical budget deficit

B a cyclical budget surplus

C a structural budget deficit

D a structural budget surplus

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