Cambridge International A Level

Cambridge International Examinations
Cambridge International Advanced Level

ECONOMICS **9708/33**

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)

* 4 4 4 8 4 2 6 9 0 *

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.

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1 When is economic efficiency achieved in an economy?

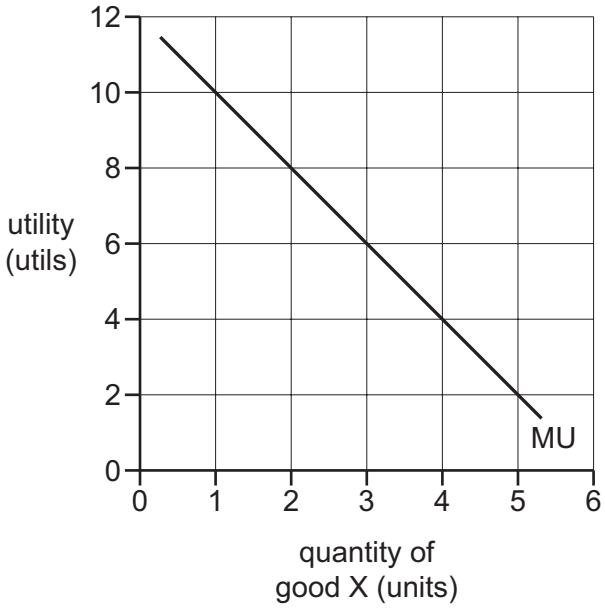
A when nobody can become better off without somebody else becoming worse off

B when the economy is operating at its natural rate of unemployment

C when the level of social costs is minimised

D when the rate of economic growth is maximised

2 The diagram shows the marginal utility (MU) an individual derives from consuming different quantities of good X.



At the margin, the individual derives two units of utility from every $1 that he spends.

Which quantity of good X will he purchase if the price of X is $2?

A 1 **B** 2 **C** 4 **D** 5

3 Why will the quantity demanded increase when the price of a normal good falls?

A The income and substitution effects are both positive.

B The income and substitution effects are both negative.

C The negative income effect is greater than the positive substitution effect.

D The positive income effect is greater than the negative substitution effect.

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4 A firm in a perfectly competitive industry employs two factors of production, X and Y.

The table shows the factor price and the current marginal physical product of these two factors.

	factor X	factor Y
factor price	$2.50	$6.00
marginal physical product	2	8

If the firm sells its product for $1 and aims to maximise profits, what should it do?

A employ less of both X and Y

B employ less of X and more of Y

C employ more of both X and Y

D employ more of X and less of Y

5 In which situation is it likely that the demand for labour would be inelastic?

A Labour and capital are close substitutes.

B Labour costs are only a small proportion of total costs.

C Demand for the final product that the labour produces is elastic.

D A large quantity of unemployed labour is available in the economy.

6 An actor is paid $100 000 a year. The next best paid job he could get would be as a lecturer.

He estimates that he currently earns an economic rent of $40 000.

What wage could he earn as a lecturer and what are his transfer earnings?

	wage as a lecturer ($)	transfer earnings ($)
A	40 000	60 000
B	40 000	140 000
C	60 000	60 000
D	60 000	140 000

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7 The schedule shows the short-run marginal cost of producing good X.

units of X	1	2	3	4	5	6
marginal cost ($)	45	40	30	20	20	50

Given that the total fixed cost is $50, what level of output minimises average total cost?

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

8 The table shows the quantity of inputs needed to produce different levels of output.

output	inputs
100	5
200	10
300	15
400	19
500	25

Over which output range do increasing returns to scale occur?

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

9 In many developed economies, large and small firms often exist side by side in the same industry.

What is most likely to explain the survival of these small firms?

A They each offer a much wider range of products.

B They have a higher minimum efficient scale.

C They pay much higher wages to their staff.

D They provide a more personal level of consumer service.

10 A bad harvest for an agricultural crop results in an increase in the total revenue received collectively by farmers.

If the demand schedule remains the same, what can be concluded from this?

A Demand is price elastic.

B Demand is price inelastic.

C Supply is price elastic.

D Supply is price inelastic.

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11 What is the necessary characteristic of an oligopolistic industry?

A mutual interdependence

B non-price competition

C price leadership by a dominant firm

D price rigidity

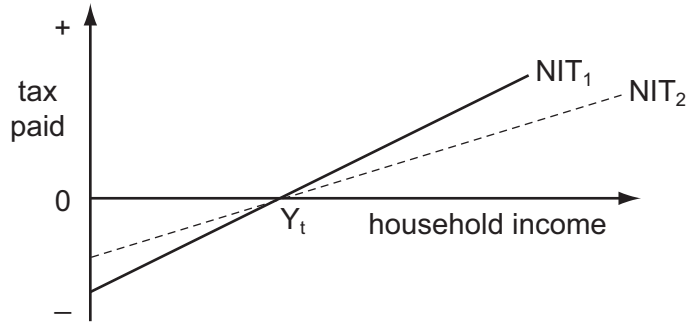
12 The table shows a firm's average variable cost of producing different levels of output. There are no fixed costs.

units of output	1	2	3	4	5	6	7
average variable cost ($)	22	18	15	13	14	16	18

If the market price were $18, within what range of output would a profit-maximising firm in a perfectly competitive industry produce in the short-run?

A 1–2 units **B** 3–4 units **C** 4–5 units **D** 6–7 units

13 The diagram illustrates the working of a negative income tax system (NIT), where households with incomes above Y_t pay tax and those with incomes below Y_t receive a tax credit.



What would be the effects of decreasing the effective tax rate, thereby causing the NIT schedule to shift from NIT_1 to NIT_2?

	effect on work incentives	effect on net tax revenue
A	decrease	increase
B	decrease	uncertain
C	increase	increase
D	increase	uncertain

14 The table shows the costs of two milk producers.

	costs per litre
firm X	$9
firm Y	$7

The price received by producers is $12 per litre. Both firms have been given quotas allowing them to produce 200 litres per day.

Assuming constant costs of production and zero costs of entry and exit, what is the maximum price firm Y would be willing to pay (per day) to buy X's quota?

A $400 **B** $600 **C** $1000 **D** $1400

15 Which trade-off do governments face when they embark upon the privatisation of a state monopoly?

A between allocative and productive efficiency

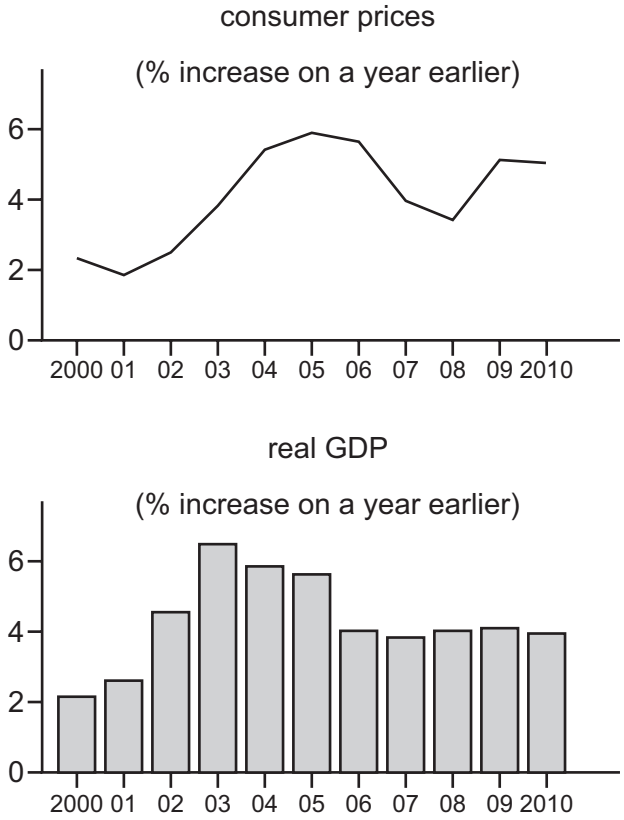
B between introducing competition and maximising revenue from the privatisation

C between productive and technical efficiency

D between pursuing short-run and long-run profit maximisation

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16 The graphs show how consumer prices and real GDP changed in a country between 2000 and 2010.



Which conclusion may be drawn from the graphs?

A The level of real GDP was lower in 2010 than in 2005.

B The price level fell between 2005 and 2008.

C Living standards remained roughly constant between 2000 and 2010.

D The country experienced continuous economic growth between 2000 and 2010.

17 What will be the short-run effect on the level of output of an increase in the money supply, according to Keynesian theory (assuming the liquidity trap does not apply) and according to monetarist theory (assuming the increase is unanticipated)?

	effect on output	
	Keynesian theory	monetarist theory
A	increase	increase
B	increase	decrease
C	unchanged	increase
D	unchanged	decrease

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

A a decrease in 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 A developing economy's exports are price inelastic in demand, while its imports are price elastic.

What would cause a rise in GDP and a fall in the deficit on the current account of the balance of payments?

A a devaluation of its currency

B a fall in the price of its imports

C a reduction in the existing quota limits imposed on its exports

D the development abroad of synthetic substitutes for its exports

20 In a closed economy with no government, the value of the investment multiplier is 4.

By how much will **consumption** increase, if investment increases by $200?

A $50 **B** $350 **C** $600 **D** $800

21 In a banking system, all banks maintain 10% of deposits as cash.

Customers withdraw $20 000 in cash.

Assuming no subsequent net change in notes and coins in circulation, by how much will the banks have to reduce their net loans?

A $2000 **B** $18 000 **C** $180 000 **D** $220 000

22 If the money supply is fixed, an increase in economic activity

A increases the transactions demand for money.

B lowers the liquidity preference schedule.

C reduces interest rates.

D reduces the income velocity of circulation.

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23 What will be the likely effects on interest rates and bond prices of a decrease in the demand for money?

	interest rates	bond prices
A	fall	fall
B	fall	rise
C	rise	fall
D	rise	rise

24 In an economy, the volume of output falls by 2% in a year, while the quantity of money rises by 3%.

If the velocity of circulation of money remains the same, what will be the approximate increases in the price level and the money value of national income?

	increase in price level	increase in money value of national income
A	1%	3%
B	1%	5%
C	5%	3%
D	5%	5%

25 A country has a high ratio of investment to GDP and rapid economic growth.

If the net capital inflow from abroad is zero, what will be a necessary cost of such growth?

A an increase in taxation

B increased consumption of luxury goods by richer residents

C increased imports of goods from abroad

D the sacrifice of present consumption by residents of the country

26 Why may an economy experience an increase in potential economic growth despite net investment remaining unchanged?

A Capital consumption exceeds net investment.

B Net investment exceeds gross investment.

C The new capital equipment embodies more advanced technology.

D The new capital equipment is longer lasting than the capital equipment it replaces.

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27 It is often argued that the UN Human Development Index is a better indicator of economic development than income per capita because it adjusts for

A average hours worked by the population.

B environmental pollution.

C inequality in income distribution.

D life expectancy at birth.

28 The table shows the labour market for an economy in four different years.

In which year was there excess demand in the labour market?

	working population (millions)	unemployment rate (%)	job vacancies (thousands)
A	19	1.0	180
B	19	2.0	80
C	20	1.1	240
D	20	1.5	100

29 The table gives details of the inflation and unemployment rates for different countries in 2008 and 2011.

country	inflation rate (% per annum)		unemployment rate (% of workforce)	
	2008	2011	2008	2011
Canada	2.38	2.89	6.15	7.47
France	3.16	2.29	7.81	9.68
Germany	2.75	2.48	7.60	5.98
Japan	1.37	–0.28	3.99	4.55

Which country or countries experienced a trade-off between their inflation and unemployment rates?

A Canada and Germany

B Canada only

C France and Japan

D France only

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30 A country experiences an increase in unemployment due to deficiency of aggregate demand.

Assuming that tax rates and rates of unemployment benefit remain unchanged, what will be the effect on tax revenue and government expenditure?

	tax revenue	government expenditure
A	decrease	increase
B	decrease	no change
C	increase	decrease
D	no change	increase

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