UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Advanced Level

ECONOMICS **9708/31**

Paper 3 Multiple Choice (Supplement) **October/November 2010**

1 hour

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

* 1 4 3 7 6 5 6 6 4 9 *

READ THESE INSTRUCTIONS FIRST

Write in soft pencil.
Do not use staples, paper clips, highlighters, 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.

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 In an economy no one can be made better off without making others worse off.

What can be concluded from this?

A All markets are perfectly competitive.

B There are no externalities.

C The economy is operating on its production possibility curve.

D The distribution of income reflects what each individual deserves.

2 The schedule shows the total utility derived by a consumer of a good X at different levels of consumption.

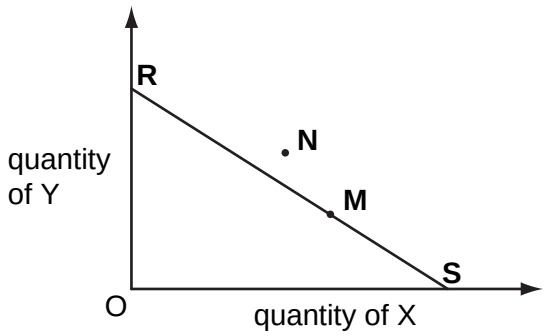
quantity of X consumed	1	2	3	4	5	6	7
total utility (units)	30	50	65	75	80	83	84

The consumer obtains three units of utility from the last $ she spends on each good that she purchases.

What is the maximum number of units of X that she will consume if the price of X is $5?

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

3 The line **RS** in the diagram shows the different combinations of goods X and Y that a consumer can afford with his present income.



The consumer's original equilibrium is at **M**.

What could explain a change in his equilibrium position to **N**?

A a change in his tastes

B a decrease in the price of X and a bigger percentage increase in the price of Y

C an increase in the price of X and an increase in his income

D equal percentage increases in his income and in both prices

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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

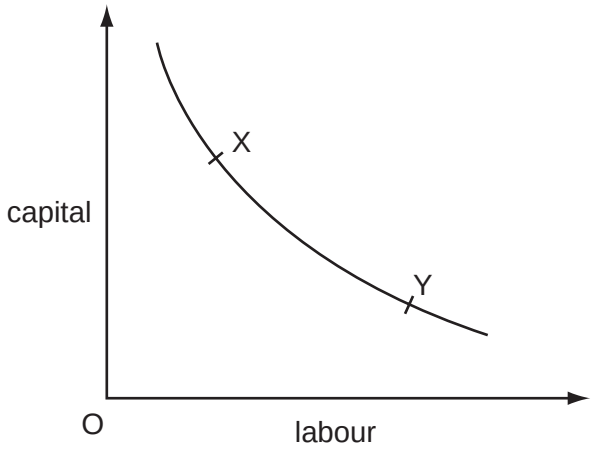
B employ less of X and more of Y

C employ more of both X and Y

D employ more of X and less of Y

5 In the diagram, the curve shows the various combinations of labour and capital that can be employed to produce a given level of output.

A firm chooses the combination of labour and capital shown by point X on the curve.



What could explain why the firm later chooses the combination of labour and capital shown by point Y?

A an increase in capital productivity

B an increase in interest rates

C an increase in labour productivity

D an increase in wage rates

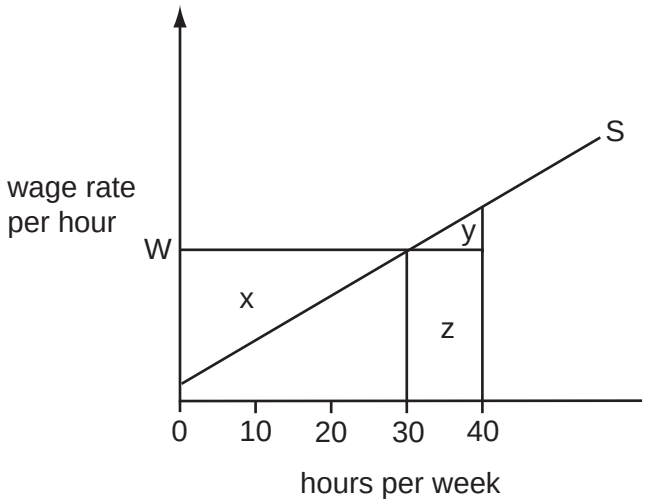
6 To increase its labour force from 100 to 101 workers, a firm has to increase the daily wage rate from $300 to $302.

What is the marginal cost of labour per day?

A $2 **B** $202 **C** $302 **D** $502

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7 The diagram shows a worker's supply of labour curve.

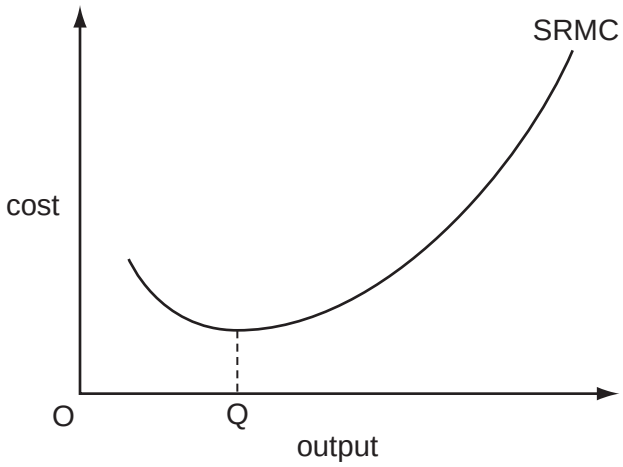


The worker is required to work a minimum of 40 hours a week at the hourly wage, 0W.

Which area measures the economic rent obtained by the worker?

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

8 The diagram shows a firm's short-run marginal cost curve.



What explains why the curve is upward sloping at output levels above OQ?

A diseconomies of scale

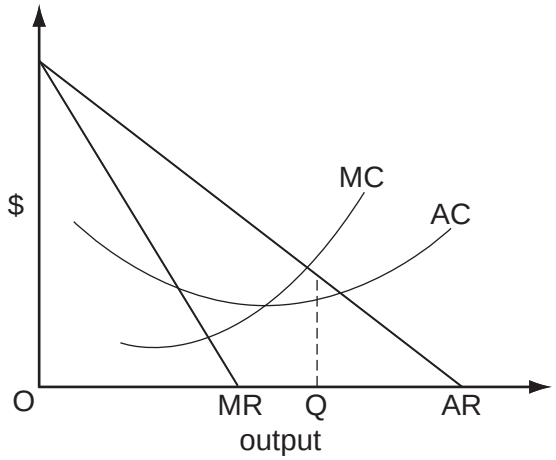
B inelasticity of supply

C rising fixed costs

D the law of variable proportions

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9 The diagram shows a firm's cost and revenue curves.



What could explain why the firm produces output OQ?

A It is operating in a contestable market.

B It is operating in a perfectly competitive market.

C It is seeking to maximise profits.

D It is seeking to maximise sales revenue.

10 A firm wishes to acquire some of the consumer surplus its customers currently enjoy.

How might it achieve this?

A by introducing price discrimination

B by reducing operating costs

C by setting a price that maximises revenue

D by taking advantage of economies of scale

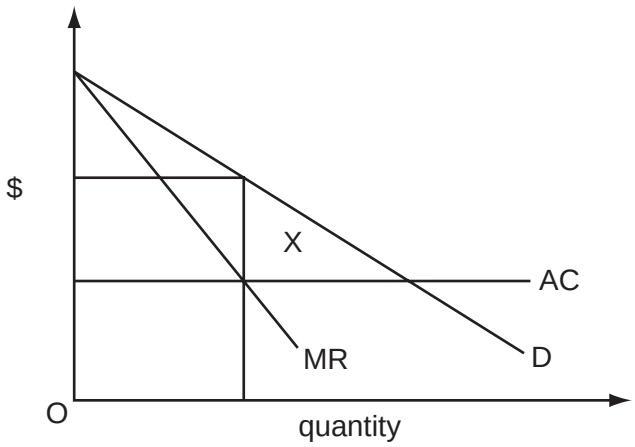
11 A perfectly competitive firm finds that at its current level of output, marginal revenue is $2.00 and marginal cost is $2.50.

If the firm is a profit maximiser, what will happen to its price and output?

	price	output
A	increases	decreases
B	increases	unchanged
C	unchanged	decreases
D	unchanged	unchanged

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12 The diagram shows the outcome when a perfectly competitive market is taken over by a monopoly.



What does area X represent?

A monopoly profit

B the reduction in consumer surplus

C the resulting deadweight loss

D transfer earnings

13 A tax is said to be regressive when

A low income earners pay a higher proportion of their income in tax than high income earners.

B marginal tax rates exceed average tax rates.

C the cost of collecting the tax exceeds the revenue raised.

D the marginal rate of tax is higher for high income earners than low income earners.

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 What is meant by 'real wages'?

A the marginal physical product of labour

B the opportunity cost of labour

C the purchasing power of money wages

D wages net of tax

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16 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

17 According to Keynesian theory, when will an increase in the money supply leave the level of output unchanged?

A when the liquidity trap is operative

B when the money supply increase was not anticipated

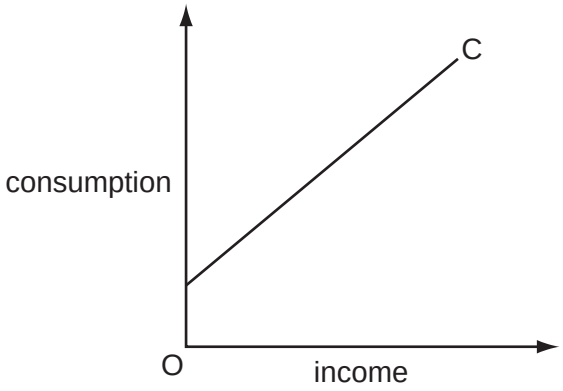
C when there is a floating exchange rate

D when there is an immediate adjustment to expectations about future price levels

18 According to monetarist theory, what will be the short-run and the long-run effect of an unexpected increase in the money supply on the real wage level?

	short-run	long-run
A	decrease	increase
B	decrease	unchanged
C	unchanged	increase
D	unchanged	unchanged

19 The diagram shows the relationship between consumption expenditure and income.



Which statement is correct?

A The average propensity to consume is constant.

B The average propensity to consume is rising.

C The marginal propensity to consume is equal to the average propensity to consume.

D The marginal propensity to consume is less than the average propensity to consume.

20 In a closed economy with no government

the full employment level of income = $400 billion

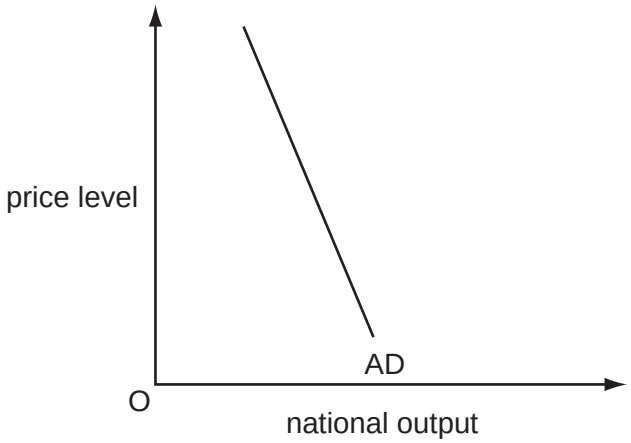
and the equilibrium level of income = $380 billion.

If the deflationary gap is $4 billion, 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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21 The diagram shows an aggregate demand curve.



What helps to explain why the curve is downward sloping?

A When exports increase there will be an increase in national income.

B When government expenditure increases there will be an increase in national output.

C When investment increases there will be an increase in consumption.

D When the price level increases there will be an increase in interest rates.

22 An increase in the money supply leads to a fall in interest rates. What else will decrease as a result of these changes?

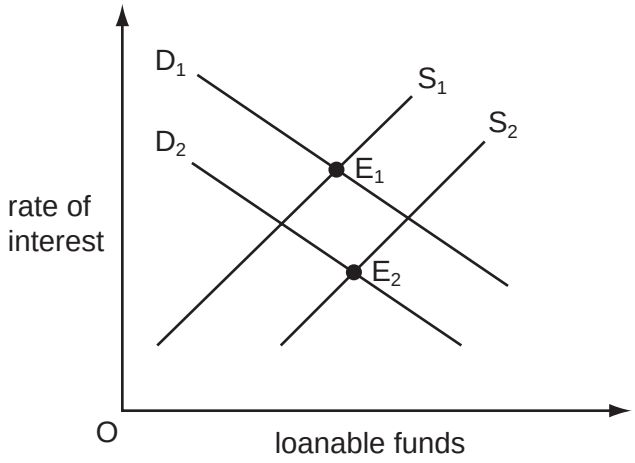
A the desire to hold idle money balances

B the price of equities

C the price of government bonds

D the velocity of circulation of money

23 The diagram shows the market for loanable funds.



Which changes could cause the equilibrium to move from E_1 to E_2?

A a decline in business confidence and an increase in bank lending

B a decrease in bank lending and depletion of natural resources

C an increase in the propensity to save and the discovery of new mineral deposits

D improvements in technology and reduction in the propensity to save

24 Which feature of the Indian economy could explain why the purchasing power parity exchange rate of the Rupee is much higher than its market exchange rate?

A high levels of duty on imported goods

B high levels of rural unemployment

C the relatively low price of goods not traded internationally

D the relatively low rate of inflation

25 What is likely to be the effect of a fall in oil prices on the global economy?

A a decrease in the rate of economic growth

B a decrease in unemployment

C a strengthening of cost-push inflation

D a weakening of demand-pull inflation

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26 What is an unavoidable cost of long-run economic growth?

A an increase in inflation

B an increase in the working hours of the population

C a sacrifice of potential present consumption

D greater inequality in the distribution of income

27 What could be expected to increase the pressure of demand-pull inflation in an open economy?

A an appreciation of the foreign exchange rate

B an increase in indirect taxes

C an increase in interest rates

D the imposition of import controls

28 When will taxes be most effective in dampening cyclical changes in national output?

A when the tax yield is independent of national income

B when the tax yield varies inversely with national income

C when the tax yield varies less than proportionately with national income

D when the tax yield varies more than proportionately with national income

29 The government of a country decides to increase the proportion of its tax revenue it obtains from direct taxes and to reduce the proportion it obtains from indirect taxes.

What is likely to be the impact on the distribution of income and on work incentives?

	distribution of income	work incentives
A	less equal	decrease
B	less equal	increase
C	more equal	decrease
D	more equal	increase

30 A country introduces import quotas.

The suppliers of imported goods charge market-clearing prices.

Assuming the demand for imports is price-inelastic, what will be the impact on the country's balance of trade and on its terms of trade?

	balance of trade	terms of trade
A	improves	improve
B	improves	worsen
C	worsens	improve
D	worsens	worsen

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