UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Level

ECONOMICS **9708/32**

Paper 3 Multiple Choice (Supplement) **October/November 2011**

1 hour

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

* 6 9 4 7 0 5 5 9 7 6 8 *

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.

This document consists of **10** printed pages and **2** blank pages.

© UCLES 2011

1 Why does a normal demand curve for a product slope downwards from left to right?

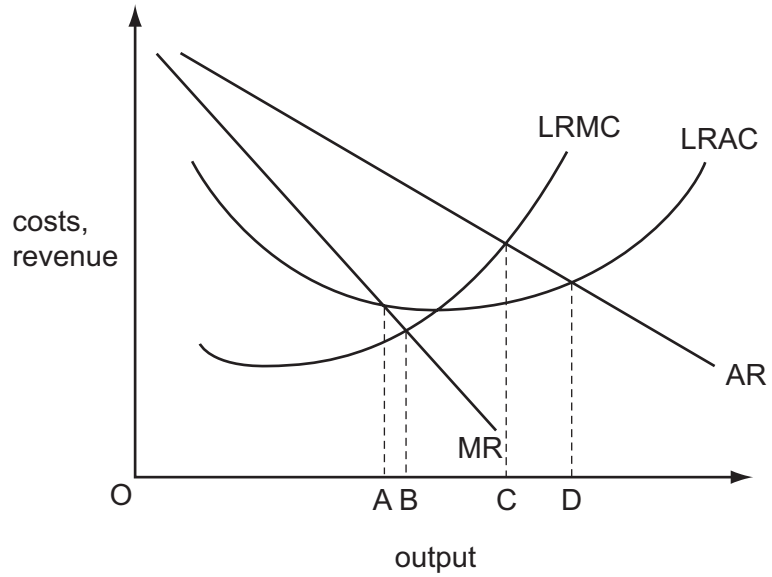
A Buyers' additional satisfaction declines as consumption rises.

B Consumers are faced with choices between competing products.

C Sellers are willing to accept lower prices on larger orders.

D The average cost of production falls as the scale of production increases.

2 The diagram shows a firm's long-run cost and revenue curves.



At which level of output is the firm both allocatively and productively efficient?

A OA **B** OB **C** OC **D** OD

3 To prevent a surplus of milk, each milk producer is given a production quota which specifies the volume of milk he is allowed to supply.

Initially the quotas are not tradable, but then trade in quotas is allowed.

Who would gain or lose when trade in quotas takes place?

	purchasers of quotas	sellers of quotas
A	gain	gain
B	gain	lose
C	lose	gain
D	lose	lose

© UCLES 2011

4 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

5 An actor is paid $100 000 a year. The next best paid job he could get is as a lecturer at $60 000 a year.

What are his transfer earnings and his economic rent?

	transfer earnings	economic rent
A	$60 000	$40 000
B	$60 000	zero
C	$40 000	$60 000
D	$40 000	zero

6 The table shows the labour market for an economy in four separate 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

© UCLES 2011

7 The table shows the levels of output of a good which can be produced with different combinations of labour and capital.

capital (number of machines)	labour (number of workers)	output (units)
2	6	100
2	7	106
2	8	108
4	12	200

Which characteristic of the production function for this good does the table show?

A a fixed ratio between capital and labour inputs

B constant returns to scale

C increasing marginal productivity of labour

D technical economies of scale

8 The short-run total costs (SRTC) of a firm are given by the formula

$SRTC = \$(10\,000 + 5X^2)$

where X is the level of output.

What are the firm's average fixed costs?

A \$10 000

B $\frac{\$(10\,000 + 5X^2)}{X}$

C $\frac{\$10\,000}{X}$

D $\frac{\$10\,000}{5X^2}$

9 What would be most likely to constrain a firm's ability to grow?

A the increased difficulty faced by the firm in marketing its product

B the increased risks arising from product diversification

C the increasing costs of distributing goods from a given location

D the increased difficulties faced by the management in coordinating production

© UCLES 2011

10 Which would be **least** likely to practise price discrimination?

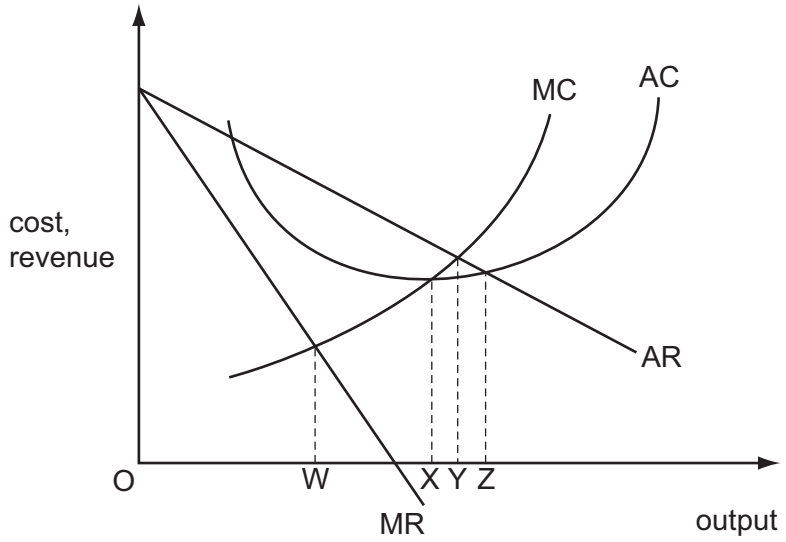
A a baker

B a cinema

C a hairdressing salon

D a restaurant

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



Which movement between levels of output would indicate a wish to change from unit cost minimisation to earning a normal profit?

A W to Y **B** W to Z **C** X to W **D** X to Z

12 What will increase the likelihood that the firms in an industry will collude to maximise their joint profits?

A The industry consists of a large number of producers.

B The industry has many differentiated products.

C The industry is characterised by rapid technological change.

D There are significant barriers to prevent new firms entering the industry.

13 What would economists agree should be the aim of any health care system?

A to meet all the health care demands of the population

B to provide every patient with the latest and best available treatment

C to provide free medical treatment

D to secure the maximum health gain from the resources available

© UCLES 2011

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

Total tax revenue is left unchanged.

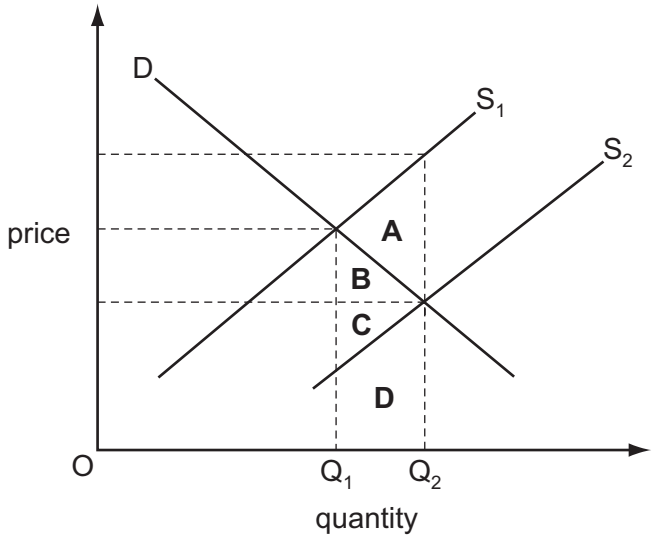
What is likely to be the impact on the distribution of income and on work incentives?

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

15 The diagram shows the supply and demand curves of a commodity.

A government subsidy causes the supply curve to shift from S_1 to S_2.

Which area measures the difference between the cost to the economy of producing the resulting increase in output ($Q_1 – Q_2$) and the value consumers place on this increase in output?



16 Which change would directly affect a country's Human Development Index?

A a change in average hours worked by the labour force

B a change in life expectancy of the population

C a change in the level of carbon dioxide emissions

D a change in the size of the population

© UCLES 2011

17 Despite a government budget deficit, a country's money supply remains unchanged.

What could explain this?

A The country has a balance of payments surplus equal to the government budget deficit.

B The country's foreign exchange rate is fixed.

C The government budget deficit is financed by borrowing from the central bank.

D The government budget deficit is financed by selling government bonds to members of the public.

18 In a closed economy, households pay \$0.10 in tax on every \$1 increase in their gross income, and spend $^5/_6$ of every increase in their disposable income.

What is the value of the multiplier?

A 1.5 **B** 4.0 **C** 6.0 **D** 7.5

19 The table shows some data for an economy.

investment \$m	exports \$m	government expenditure \$m	savings \$m	imports \$m	taxation \$m	national income \$m
200	100	50	125	62.5	62.5	600
200	100	50	150	75	75	700
200	100	50	175	87.5	87.5	800
200	100	50	200	100	100	900

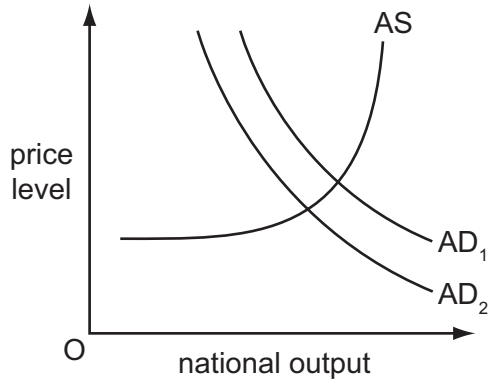
What is the equilibrium level of national income?

A \$600 m **B** \$700 m **C** \$800 m **D** \$900 m

20 What will be the effect, in the short run, on the price level and on national output of an increase in aggregate demand if firms are working at full capacity?

	price level	national output
A	rise	rise
B	rise	unchanged
C	unchanged	rise
D	unchanged	unchanged

21 The diagram shows an economy's aggregate demand and aggregate supply curves.



What could cause the aggregate demand curve to shift from AD_1 to AD_2?

A an appreciation in the exchange rate

B an increase in the money supply

C a decrease in the interest rate

D a fall in the unemployment level

22 According to Keynesian analysis, what will be the result of a decrease in the money supply?

A The rate of interest will be reduced, thereby reducing the levels of investment and income.

B The rate of interest will be increased, thereby reducing the levels of investment and income.

C The level of income will be increased as a result of a lower rate of interest and a higher level of investment.

D The price level will fall by the same percentage change as the decrease in the money supply.

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

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

© UCLES 2011

24 A developing country experiences a rapid growth in labour productivity.

What is likely to result from this?

A an appreciation of the country's nominal exchange rate

B an increase in the country's balance of trade deficit

C an increase in the country's inflation rate

D an increase in the country's relative labour costs

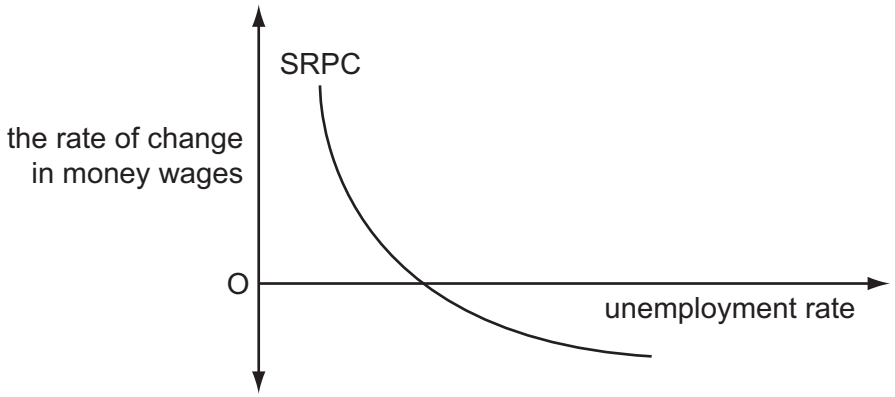
25 A government currently has a balanced budget. It is considering the possible variations in tax revenue and government expenditure shown.

options	tax revenue	government expenditure
W	increase	increase
X	increase	reduce
Y	reduce	increase
Z	reduce	reduce

Which three options have the potential to move the budget into surplus?

A W, X and Y **B** W, X and Z **C** W, Y and Z **D** X, Y and Z

26 The diagram shows an economy's short-run Phillips curve (SRPC).



What is assumed to remain constant when drawing this curve?

A the average price level

B the exchange rate

C the expected rate of inflation

D the money supply

27 The economy of a country is simultaneously experiencing a balance of payments deficit, a budget deficit, demand-pull inflation and unemployment. The government decides to cut personal income taxes.

What does this suggest is its main macroeconomic objective?

A to improve the balance of payments position

B to reduce the budget deficit

C to reduce the level of unemployment

D to reduce the rate of inflation

28 What is **not** a valid economic argument for developing economies to pursue a policy of import substitution?

A to embark on industrialisation as a basis for export-led growth

B to exploit their relative abundance of labour in order to produce labour intensive manufacturing goods

C to increase the opportunities for exporting goods in which they already have a comparative advantage

D to reduce their dependence on a narrow range of primary products

29 Assuming no change in tax rates or tax-free allowances, for which tax would the amount paid in tax become a smaller proportion of taxpayers' income during a period of wage and price inflation?

A a progressive income tax

B a specific tax on tobacco

C capital gains tax

D value added tax

30 An economy has a flexible exchange rate. It raises interest rates above the level existing in other countries.

What will be the likely effect on the level of domestic demand for goods and services and on the demand for the country's exports?

	domestic demand	export demand
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

© UCLES 2011

BLANK PAGE

BLANK PAGE

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.

University of 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.

© UCLES 2011