UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Level

ECONOMICS **9708/31**

Paper 3 Multiple Choice (Supplement) **October/November 2012**

1 hour

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

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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 someone else worse off.

What does **not** necessarily follow from this?

A The conditions for allocative efficiency have been met.

B The conditions for productive efficiency have been met.

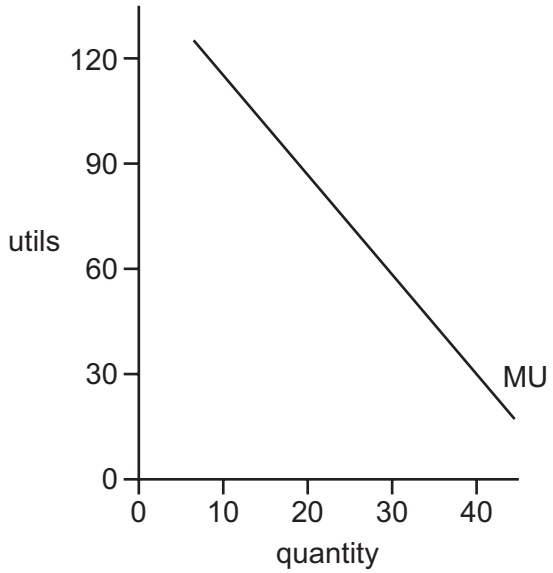
C The distribution of income is socially acceptable.

D The economy is operating at a point on its production possibility frontier.

2 The table gives information about an individual's consumption of good X.

price of good X	$10
quantity demanded (units)	25
marginal utility (utils)	30

The diagram shows the marginal utility a consumer derives from the consumption of good Y.



Assuming no change in the price of good X, by how much will the individual's consumption of good Y increase if the price falls from $30 to $20?

A 5 units **B** 10 units **C** 20 units **D** 30 units

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3 When the price of a good changes, the effect on quantity demanded is the result of an income and a substitution effect.

Which statement about these effects is always correct?

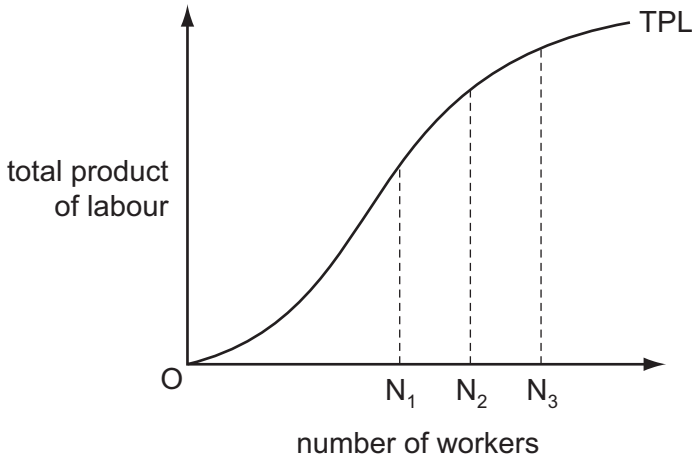
A For inferior goods, the income effect and substitution effect work in the same direction.

B For inferior goods, the substitution effect outweighs the income effect.

C For normal goods, the income effect and substitution effect work in the same direction.

D For normal goods, the income effect outweighs the substitution effect.

4 The diagram shows a firm's total product of labour curve.



Which statement is correct?

A The average product of labour is maximised at ON_1.

B The average product of labour is maximised at ON_3.

C The marginal product of labour is maximised at ON_1.

D The marginal product of labour is maximised at ON_2.

5 What could cause a perfectly competitive firm's marginal revenue product of labour curve to shift to the right?

A an increase in wages

B a higher rate of sales tax

C an increase in labour supply

D a rise in the price of the final product

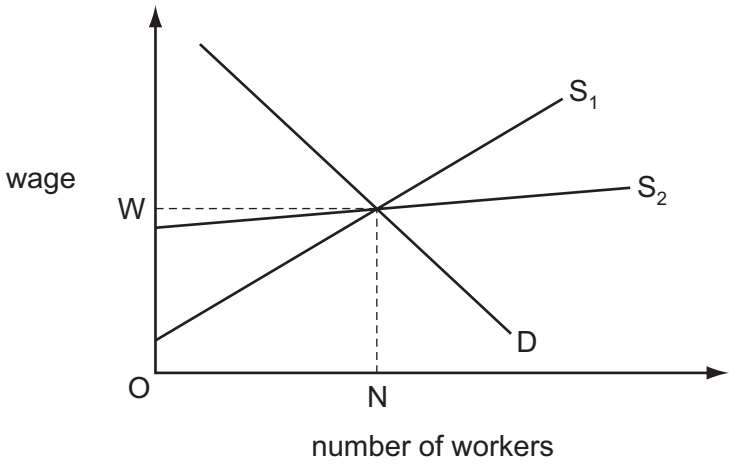
6 A firm currently employs 30 workers at a daily wage of $50.

The marginal cost of employing one extra worker is $112 per day.

By how much will the firm have to increase the daily wage in order to increase its labour force from 30 to 31 workers?

A 2% **B** 4% **C** 6.3% **D** 7.5%

7 The diagram represents the market for labour.



What would be the effect on transfer earnings and economic rent of a change in the supply curve from S_1 to S_2?

	transfer earnings	economic rent
A	fall	falls
B	fall	rises
C	rise	rises
D	rise	falls

8 Which is a risk-bearing economy of scale?

A greater bargaining power in purchasing from suppliers

B greater diversification of the product range

C lower costs in raising capital

D lower distribution costs by increasing market share

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9 A firm estimates that, all else remaining unchanged, an increase in its output would leave its revenue unchanged.

What can be deduced from this about the price elasticity of demand for the firm's product?

A It is –1.

B It is +1.

C It is perfectly inelastic.

D It is perfectly elastic.

10 A firm currently aims to maximise its sales revenue.

What is likely to happen if the firm decides instead to aim at maximising profit?

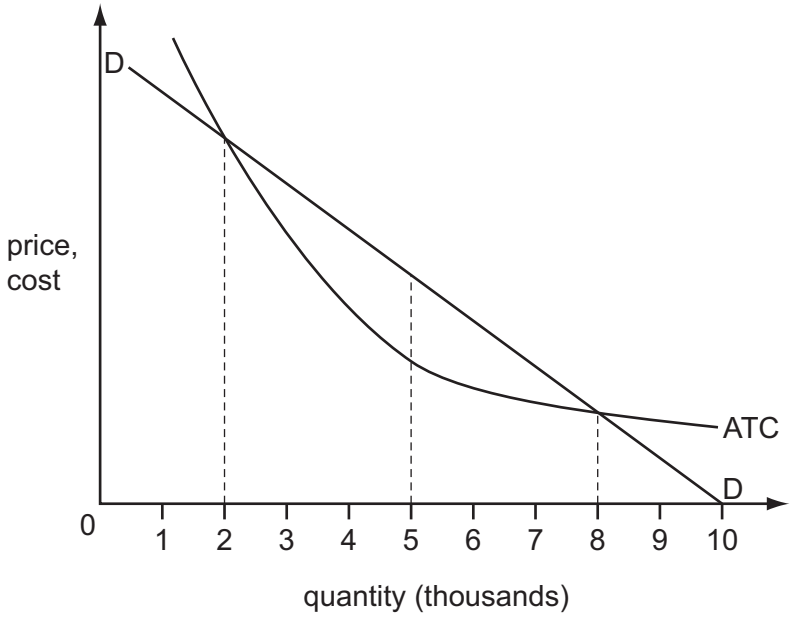
A a reduction in the price of the firm's product

B a reduction in the price of the firm's shares

C a reduction in the firm's market share

D an increase in the number employed by the firm

11 In the diagram, DD is the demand curve facing a monopoly producer, and the rectangular hyperbola ATC is the firm's average total cost curve.



What is the firm's profit maximising level of output?

A 2000 units

B 5000 units

C 8000 units

D 10 000 units

12 Firms X, Y and Z are profit maximising private firms.
X operates in a perfectly competitive industry, Y in a monopolistically competitive industry and Z is a single monopolist.

Which statement is correct?

A Only X satisfies the condition for allocative efficiency.

B Only X faces no barriers to entry in the long run.

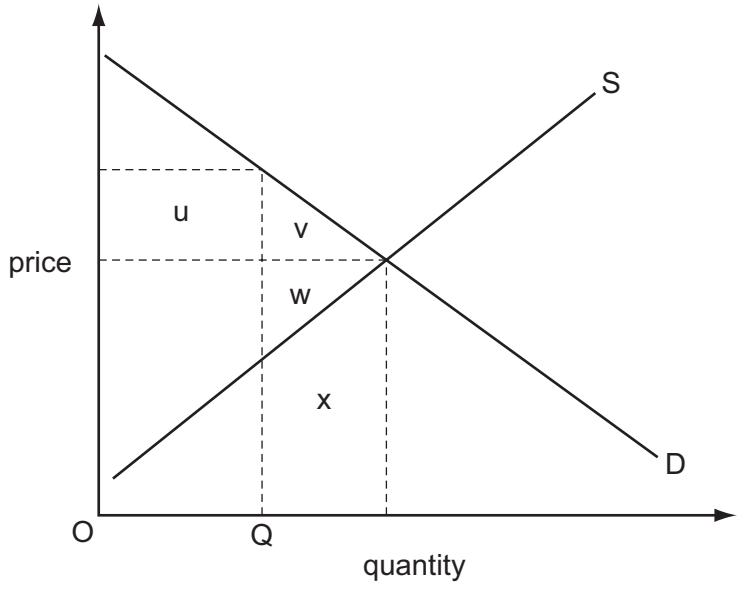
C Only Y and Z can make a supernormal profit in the long run.

D Only Z is a price maker.

13 What would be the short-run effect on price, output and profits of an increase in demand for the product of a monopolistically competitive firm?

	price	output	profits
A	increase	increase	increase
B	increase	no change	decrease
C	no change	increase	increase
D	no change	no change	increase

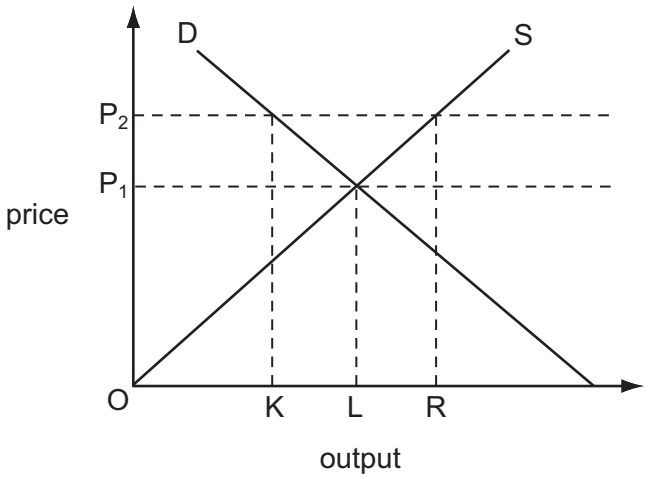
14 The diagram shows an industry's supply and demand curves.



In the absence of externalities, which area in the diagram measures the net loss in economic welfare if the government restricts the level of output to OQ?

A u + v **B** v + w **C** x **D** v + w + x

15 The diagram shows the market supply and demand curves for corn.



What should a government do if it is to maintain a minimum price of OP_2?

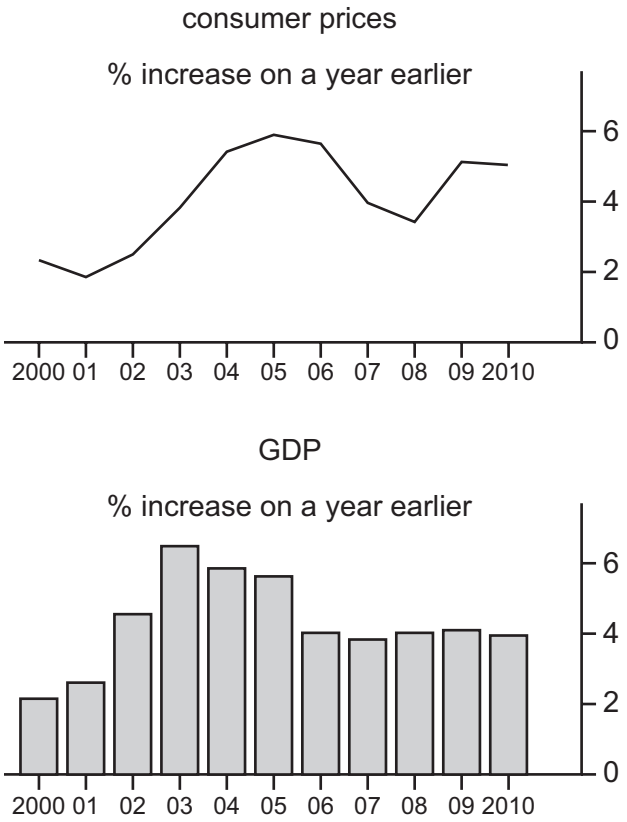
A buy quantity KR

B buy quantity LR

C sell quantity KL

D sell quantity OL

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 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 Which asset would **not** be included in a country's broad money supply?

A deposits in commercial banks held for specified minimum periods of time

B deposits in commercial banks transferable by cheque

C deposits in the central bank held by commercial banks

D notes and coins held by private individuals

18 Which represents a leakage from an economy's circular flow of income?

A a government budget surplus

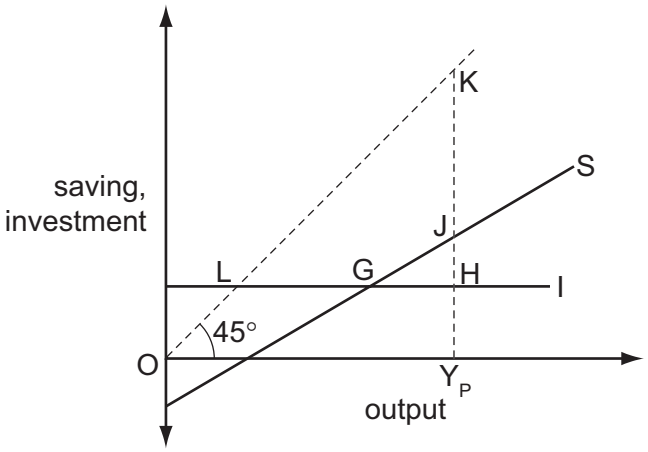
B bank loans to private companies

C foreign direct investment in the economy

D the sale of assets by the country's households

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19 The diagram shows the saving and investment curves of a closed economy with no government.

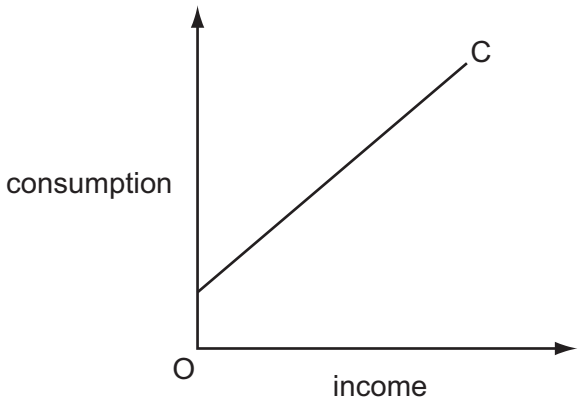


The potential level of output is OY_P.

Which distance measures the gap between actual and potential output?

A KJ **B** JH **C** LG **D** GH

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



Which statement is correct?

A The average propensity to consume is falling.

B The average propensity to consume is rising.

C The marginal propensity to consume is rising.

D The marginal propensity to consume is falling.

21 A 6 % increase in the money supply leads to a 10 % increase in the level of money income.

What can be deduced from this?

A There has been an increase in the level of output.

B There has been an increase in interest rates.

C There has been an increase in the velocity of circulation.

D The price level has increased by 4 %.

22 Despite a balance of payments deficit a country's money supply remains unchanged.

What could explain this?

A The country's foreign exchange rate is fixed.

B The government runs a budget surplus.

C There is a fall in the country's foreign exchange reserves.

D The government runs a budget deficit financed by borrowing from the central bank.

23 What is most likely to lead in the long run to an increase in world real GDP per head?

A faster population growth

B trade liberalisation

C a lower propensity to save

D faster growth of the money supply

24 Which government policy would boost economic growth but **not** necessarily promote economic development?

A creating a more equal distribution of income and wealth

B diverting government spending from industry to education

C encouraging the extraction of finite natural resources

D introducing tighter controls on air pollution

25 Which type of unemployment is associated with a deficiency in aggregate demand?

A cyclical

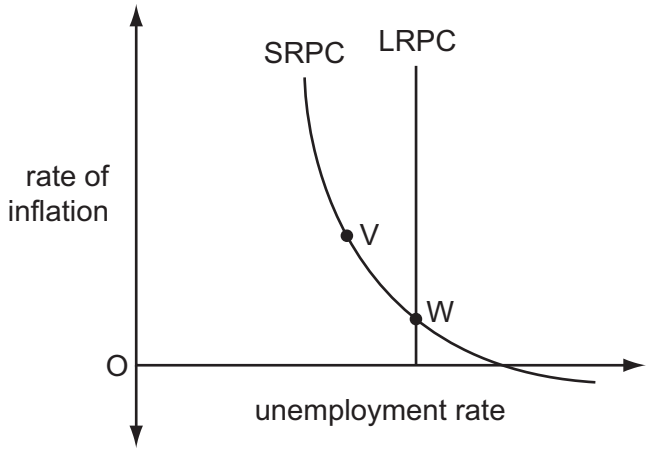
B frictional

C structural

D voluntary

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26 In the diagram, SRPC is an economy's short-run Phillips curve and LRPC is its long-run Phillips curve.



The economy is initially at point W.

An increase in monetary growth moves the economy to point V.

Why is it that the economy **cannot** stay at point V?

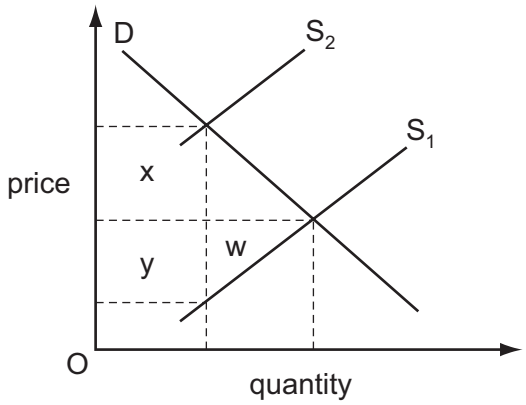
	rate of inflation at point V	unemployment rate at point V
A	above the expected rate	above the natural rate
B	above the expected rate	below the natural rate
C	below the expected rate	above the natural rate
D	below the expected rate	below the natural rate

27 A country has a floating exchange rate and an independent central bank with the power to set interest rates. The rate of inflation is currently stable at the central bank's target rate of 2%.

If the central bank's inflation target is raised from 2 % to 5 %, what is likely to happen to interest rates and the exchange rate?

	interest rates	exchange rate
A	fall	fall
B	fall	rise
C	rise	fall
D	rise	rise

28 In the diagram D is the demand curve for Indian tea exports and S_1 is the initial supply curve.



The Indian government imposes a tax on tea exports, which causes the supply curve to shift to S_2.

Which areas in the diagram measure the resulting gain in tax revenue to the Indian government and the resulting loss in producer surplus to its tea producers?

	gain in tax revenue	loss in producer surplus
A	x	w + y
B	x + y	y
C	x	y
D	x + y	w + y

29 Which action is consistent with a policy of 'trade not aid'?

A abolishing subsidies paid to producers in developed economies

B encouraging the activities in developing countries of non-governmental organisations (NGOs)

C limiting the activities of multinational companies (MNCs) from developed economies

D reducing the size of quotas on imports from developing countries

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30 A government decides to pursue a more reflationary fiscal policy and a more deflationary monetary policy.

Which combination of changes in policy instruments is consistent with this?

	government expenditure	interest rate	taxation
A	decrease	decrease	increase
B	decrease	decrease	decrease
C	increase	increase	decrease
D	increase	increase	increase

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