UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Level

ECONOMICS **9708/32**

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)

5150638138

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 **12** printed pages.

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1 What will happen if a firm is subsidised by an amount equal to the external benefits that it confers on the rest of society?

A There will be no effect upon production.

B The firm will produce less.

C There will be a misallocation of resources.

D Resource allocation will be improved.

2 A consumer who aims to maximise his utility will arrange his consumption so that

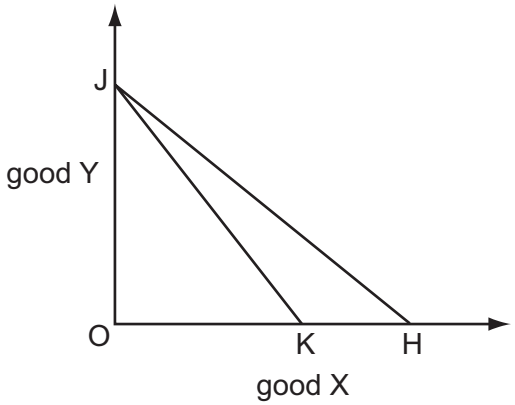
A the total utility obtained from each commodity is the same.

B the total utility per $ spent on each commodity is the same.

C the same utility is obtained from the last unit of each commodity.

D the same utility is obtained from the last unit of expenditure on each commodity.

3 In the diagram a consumer's budget line shifts from JK to JH.



What can definitely be concluded from the diagram?

A There has been a decrease in the price of good Y.

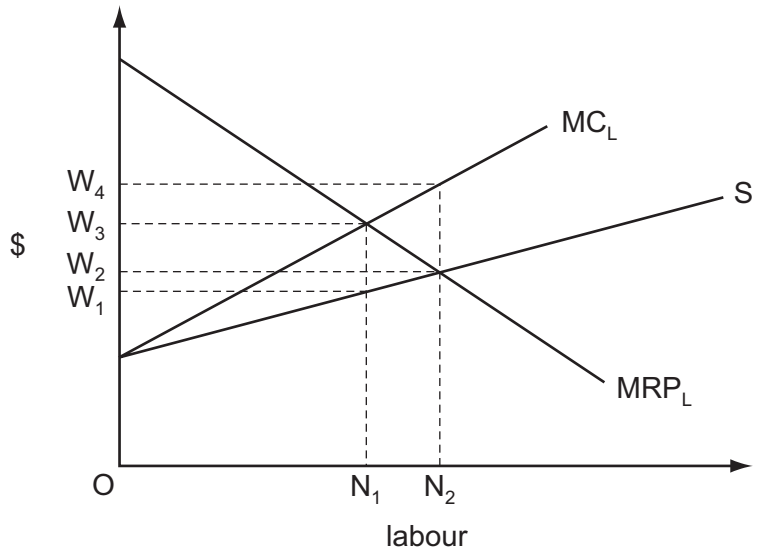
B There has been a decrease in the consumer's money income.

C There has been an increase in the consumer's real income.

D There has been no change in the price of good X.

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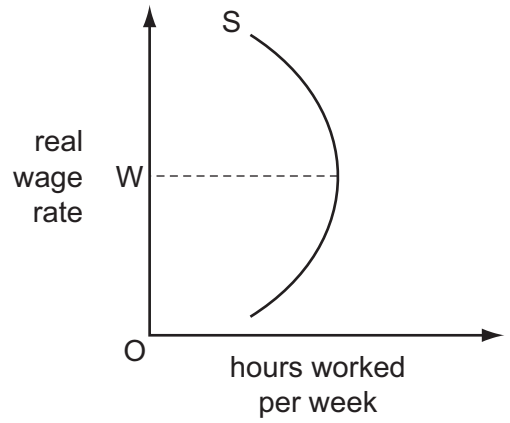
4 In the diagram, MRP_L is a firm's marginal revenue product of labour curve, S is its supply of labour curve, and MC_L its marginal cost of labour curve.



Assuming profit maximisation, how many workers will the firm employ and what wage will it pay?

	number employed	wage
A	N_1	W_1
B	N_1	W_3
C	N_2	W_2
D	N_2	W_4

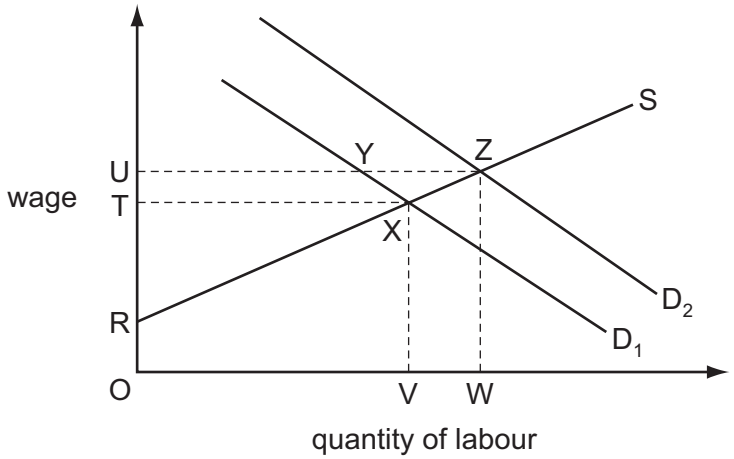
5 The diagram shows a backward sloping supply curve of labour.



What is correct about the substitution effect and the income effect when the real wage rises above OW?

	substitution effect	income effect
A	negative	negative
B	negative	positive
C	positive	negative
D	positive	positive

6 In the diagram D_1 and S are the initial demand and supply curves for building workers.



If the demand for building workers increases to D_2 by how much does the economic rent earned by building workers rise?

A RZU **B** TXZU **C** VWZX **D** XZY

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7 What would be the effect of imposing a specific tax on each item produced by a profit maximising monopolist?

A Average revenue falls by the amount of the tax.

B Marginal costs rise by the amount of the tax.

C Price increases by the amount of the tax.

D There will be no change in price or output.

8 An economist calculates that an owner-managed firm has incurred the following costs over the course of a year.

	$(000)
wages of two employees	150
fee paid to wife for secretarial services	20
opportunity cost of owner's time	30
materials	80
rent	30
marketing fees	20
interest on bank loans	25
interest forgone on finance provided by owner	15

By how much does total cost as defined by an economist exceed the total cost as defined by an accountant?

A $15 000 **B** $30 000 **C** $45 000 **D** $65 000

9 A manufacturing firm has one plant of optimum size.

The firm builds a second plant identical to its first plant. The firm then finds that its long-run average cost has risen.

What could account for the change in its long-run average cost?

A diminishing returns

B external diseconomies of scale

C managerial diseconomies of scale

D technical diseconomies of scale

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10 What is most likely to be associated with a firm that is growing rapidly?

A a high rate of labour turnover

B a low level of net investment

C a low percentage of profits paid as dividends to shareholders

D attainment of the necessary conditions for allocative efficiency

11 What is meant by a four firm concentration ratio of 25 %?

A The largest four firms' market share totals 25 %.

B The largest four firms have a market share of 25 % each.

C There are only four firms in the industry.

D The largest firm has a 25 % market share.

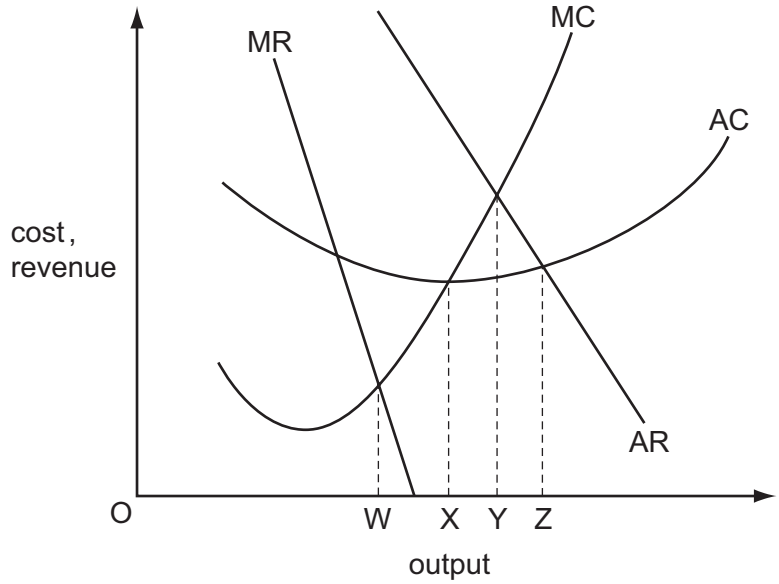
12 Instead of charging all its customers the same price, a firm decides to charge different prices in different markets.

How is this likely to affect consumer surplus and the firm's marketing costs?

	consumer surplus	marketing costs
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

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13 The diagram shows a profit-maximising firm's cost and revenue curves.



What would be the increase in the firm's output if it was required to charge a price equal to marginal cost?

A WX **B** XY **C** WY **D** XZ

14 All firms in an economy produce at levels of output where price and marginal private cost are equal.

Why might this **not** be sufficient to ensure that allocative efficiency is achieved?

A a small number of buyers and sellers

B differences in consumers' preferences

C product differentiation

D the presence of externalities

15 What is most likely to be regressive?

A corporate profit taxes

B state pension benefits

C specific tax on cigarettes

D unemployment benefits

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16 Over a given period, the nominal value of a country's national income increased by 20 % and the rate of inflation was 10 %.

What can be deduced from this information?

A There was an increase in the volume of output.

B There was a reduction in the demand for money.

C There was an increase in the income velocity of circulation.

D The country's money supply increased by 10 %.

17 An economist wishes to judge whether an economy's budget deficit is excessive.

What would be the most appropriate way to measure the budget deficit when making this judgement?

A as a percentage of foreign currency reserves

B as a percentage of GDP

C in inflation adjusted terms

D in purchasing power parity terms

18 In a closed economy with no government, the level of investment is $5 million, the equilibrium level of income is $22 million, the full employment level of income is $25 million and there is a deflationary gap of $1 million.

What can be deduced from this information?

A The marginal propensity to consume is $\frac{2}{3}$.

B The marginal propensity to consume is $\frac{1}{3}$.

C The value of the investment multiplier is 5.

D The value of the investment multiplier is 1.5.

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19 The table gives the national income of a country over six years.

year	national income (Y)
1	2100
2	2110
3	2125
4	2135
5	2140
6	2135

According to the accelerator principle, in which year did net investment first fall to a level below that of the previous year?

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

20 In 2009 the US central bank, the Federal Reserve, increased the money supply.

Which policy measure taken by the Federal Reserve would have achieved this outcome?

A a purchase of government securities in the open market

B a reduction in the issue of short-term government debt

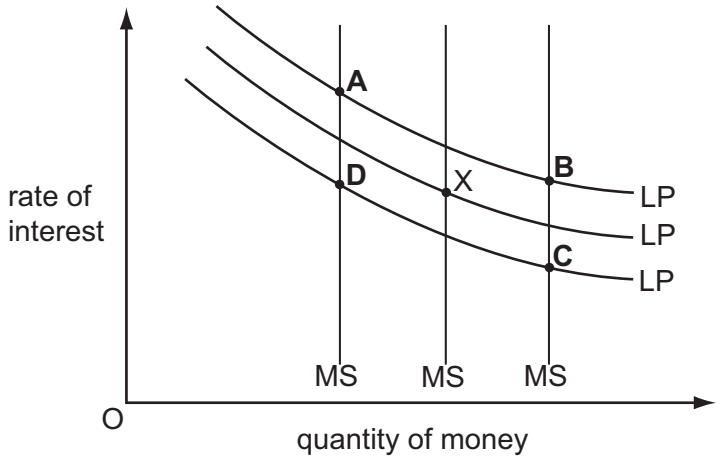
C a requirement for commercial banks to increase their liquidity ratios

D an increase in the bank rate

21 The diagram shows three different levels of money supply (MS) and three different demand curves for holding money balances (LP). The initial equilibrium is at point X.

Banks create more credit and people decide to hold more money as a precaution against emergencies.

What is the new equilibrium point?

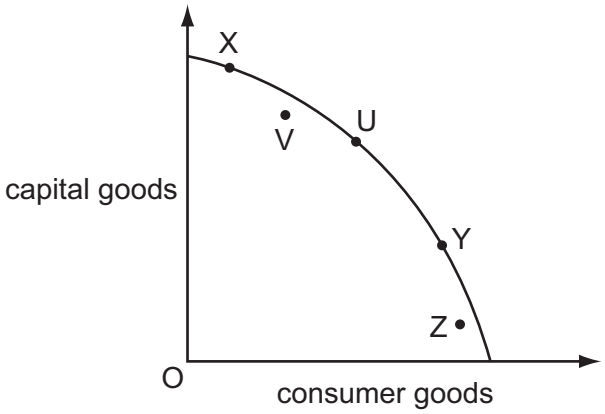


22 An economy's unemployment rate is below the natural rate.

What is likely to be the implications of this for inflation and what can be deduced from this about the economy's actual level of output?

	inflation	actual output
A	accelerating	below potential output
B	accelerating	above potential output
C	decelerating	below potential output
D	decelerating	above potential output

23 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

24 What is most likely to lead to an increase in the natural rate of unemployment?

A more rapid technological and structural change

B a widening in regional wage differentials

C a narrowing in regional house price differentials

D a decrease in trade union membership

25 Which type of unemployment arose from the worldwide decline in the demand for electronic goods beginning in the summer of 2001?

A seasonal

B voluntary

C frictional

D structural

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26 What will assist a country's potential growth in national output?

A an increase in cyclical unemployment

B an increase in the rate of inflation

C an increase in the government's budget deficit

D increased participation in the labour force

27 How might a developing economy gain from a multilateral reduction in import tariffs and the removal by developed economies of subsidies on food exports?

A through increased specialisation leading to higher productivity

B through increased ability to protect infant industries

C through a reduction in the cost to the economy of imported food

D through increased tariff revenues

28 During a recession, a government increases its expenditure on goods and services by $10 million but leaves tax rates unchanged.

Why might the subsequent increase in national income be less than $10 million?

A Increased government borrowing increases interest rates.

B The marginal propensity to consume is less than 1.

C The marginal propensity to import is greater than 0.

D There is no accelerator effect on investment.

29 Why is it more effective to increase regressive taxes rather than progressive taxes when pursuing a deflationary fiscal policy?

A Changes in VAT have minimal effect on consumers' spending.

B It is much more unfair to increase progressive taxes.

C Many workers reduce the hours they work when income taxes are raised.

D Low income households spend a larger proportion of their incomes.

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30 In an economy, the marginal propensity to consume of the unemployed is higher than that of taxpayers.

The government increases expenditure on unemployment benefits by $10 million.

What will the government need to do if it wishes to keep aggregate demand unchanged?

A raise taxation by less than $10 million

B raise taxation by more than $10 million

C raise taxation by $10 million

D leave taxes unchanged

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