UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Level

ECONOMICS **9708/33**

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)

* 1 8 6 5 5 4 3 6 7 7 *

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.

IB12 11_9708_33/4RP
© UCLES 2012

1 An economy is operating at a point on its production possibility curve.

What is true about the way the economy's resources are being allocated at this point?

	allocatively efficient	productively efficient	socially desirable
A	yes	yes	possibly
B	possibly	yes	yes
C	possibly	possibly	possibly
D	yes	possibly	yes

2 A household which spends all of its income on bananas and apples makes the following purchases.

fruit	quantity purchased (kg)	price per kg ($)
bananas	5	2.50
apples	10	1.00

The household derives twice as much utility from the fifth kg of bananas as from the tenth kg of apples.

What should the household do to maximise utility from the purchase of these fruits?

	purchase of bananas	purchase of apples
A	increase	decrease
B	decrease	increase
C	no change	decrease
D	no change	increase

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

A The income and substitution effects are both positive.

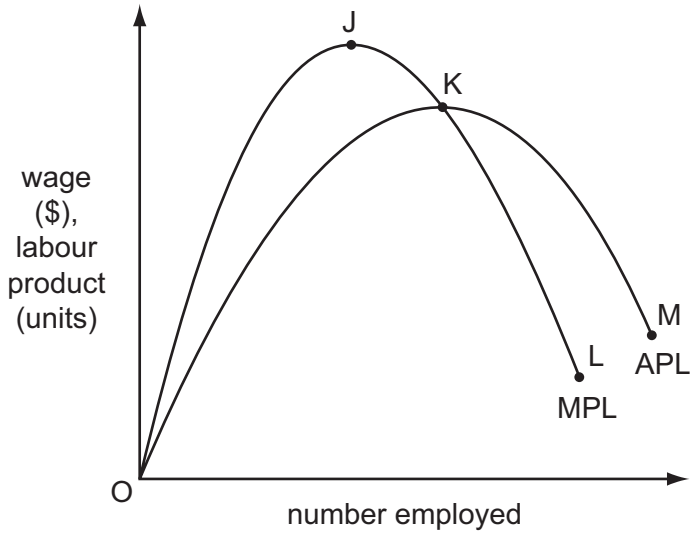
B The income and substitution effects are both negative.

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

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

© UCLES 2012

4 The diagram shows a perfectly competitive firm's average product of labour and marginal product of labour curves.



The market price of the firm's product is $1.

Which segment of the curves represents the firm's demand for labour curve?

A OJ **B** JK **C** KL **D** KM

5 To increase its labour force from 30 to 31 workers, a firm has to increase the daily wage rate from $50 to $52.

What is the marginal cost of labour per day?

A $52 **B** $62 **C** $112 **D** $1612

6 A trade union seeks to increase the wages a firm pays to its workers while at the same time preserving jobs.

What will strengthen the union's negotiating position?

A Capital and labour are close substitutes.

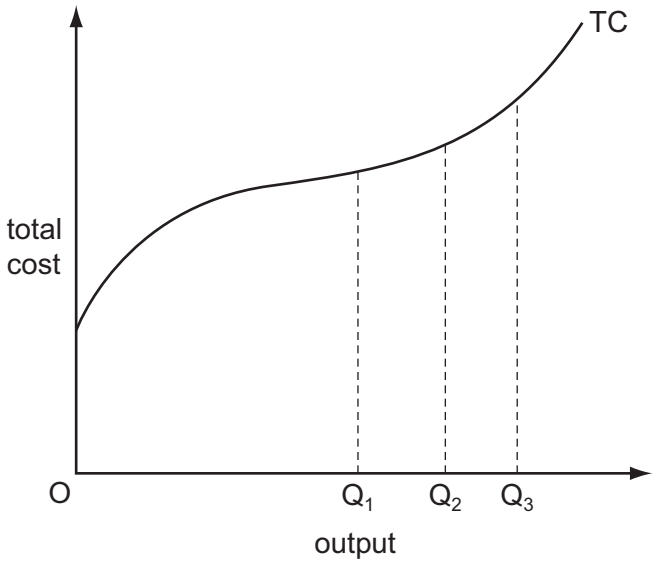
B The demand for the good produced by the firm is price elastic.

C The supply of labour to the firm is perfectly elastic.

D The firm operates in a monopsonistic labour market.

© UCLES 2012

7 The diagram shows a firm's short-run total cost curve (TC).



Which statement is correct?

A Average variable cost is minimised at output OQ_3.

B Marginal cost is minimised at output OQ_1.

C Average variable cost is minimised at output OQ_1.

D Average total cost is minimised at output OQ_2.

8 A firm employs three factors of production. The table shows the marginal products of these factors and their respective costs at the current level of output.

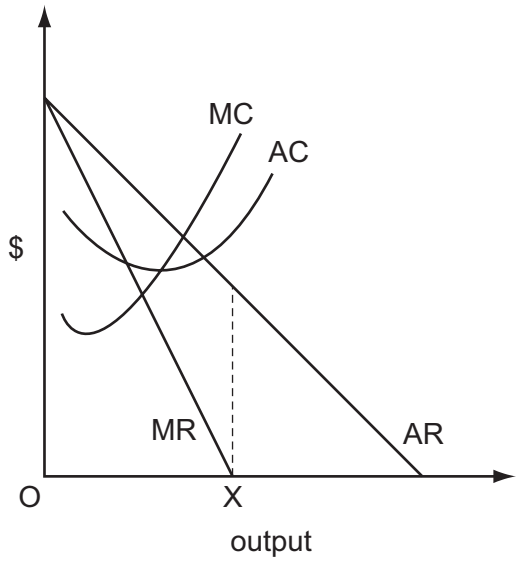
	land	labour	capital
marginal product (units)	4	2	9
marginal cost per unit of factor ($)	4	6	3

Which adjustment in factor use would be most likely to bring the firm nearer to the least-cost combination of inputs for its current output level?

	land	labour	capital
A	no change	more	more
B	more	less	more
C	no change	more	no change
D	more	more	no change

© UCLES 2012

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



What is the firm's objective if it produces output OX?

A to achieve normal profit

B to maximise profit

C to maximise total revenue

D to minimise average cost

10 The table shows a firm's total costs corresponding to different levels of output.

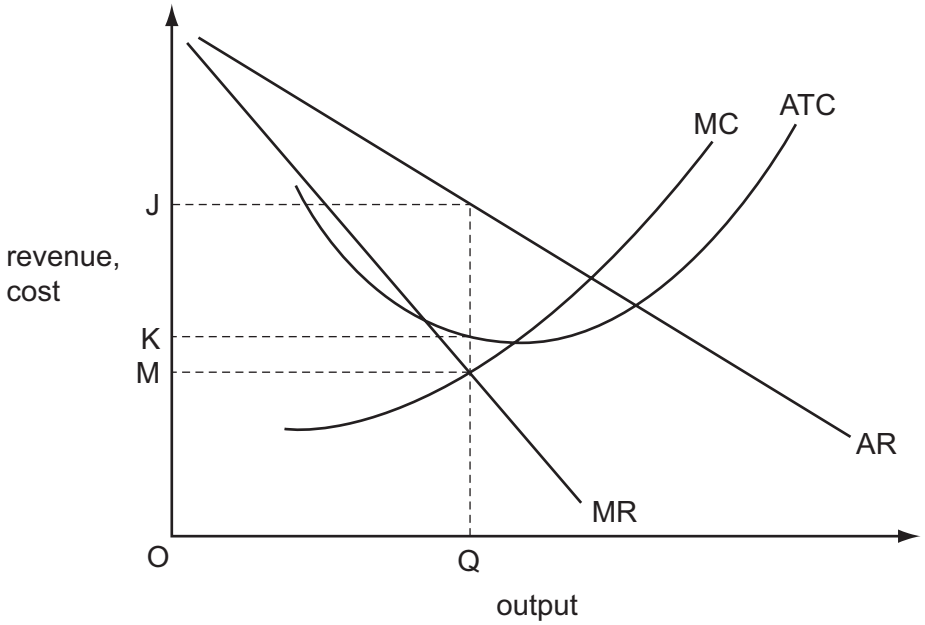
units of output	1	2	3	4	5	6	7	8
total cost ($)	8	14	18	22	28	36	46	58

If the market price is $8, within which 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** 5 - 6 units **D** 7 - 8 units

© UCLES 2012

11 The diagram shows the cost and revenue curves of a profit-maximising monopolist.



What measures the total monopoly profit made by the firm?

A JM **B** JK **C** JM × OQ **D** JK × OQ

12 Some of the firms in an industry agree to set the same price. What might threaten the continuation of the agreement?

A differences in cost structures between firms

B homogeneity of the product

C the inclusion of the dominant firm in the industry

D significant barriers to entry into the industry

13 What does **not** pose a threat to the achievement of allocative efficiency?

A imperfect information on the part of consumers

B income inequalities

C the existence of externalities

D the presence of monopolistic elements

© UCLES 2012

14 At present, a monopolist is required by the industry regulator to charge a price equal to marginal cost.

The table summarises the consequences if the firm were allowed instead to maximise its profits.

	$million
increase in monopoly profits	5
loss of consumer surplus	8

What would be the resulting deadweight loss?

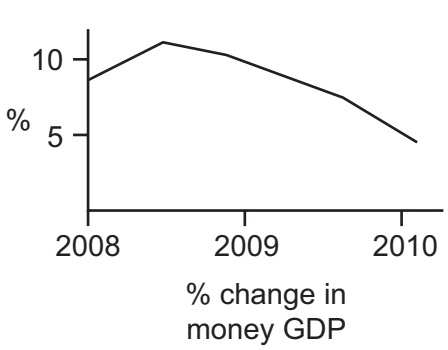
A $3 million **B** $5 million **C** $8 million **D** $13 million

15 The government introduces a congestion charge on motorists who drive their vehicles within a designated urban zone.

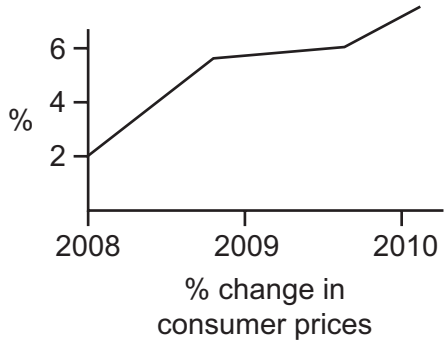
What will be the impact on the overall economic welfare of those who continue to use their cars and on those who switch to travelling by bus?

	impact on those who continue to use their cars	impact on those who switch to buses
A	loss	uncertain
B	loss	loss
C	uncertain	loss
D	uncertain	uncertain

16 The graphs below show percentage changes in money GDP and consumer prices in a country between 2008 and 2010.



% change in money GDP



% change in consumer prices

Which conclusion may be drawn from the graphs?

A Between 2009 and 2010 money GDP fell but consumer prices continued to rise.

B Consumer prices and money GDP both continued to rise throughout the period.

C In real terms GDP grew throughout the period.

D When consumer prices rose, money GDP fell.

17 The table shows data on a country's gross domestic product (GDP) at market prices and on domestic spending.

	year 1 ($m)	year 2 ($m)	year 3 ($m)
GDP at market prices	630	650	680
private consumption	460	470	480
government consumption	140	160	170
gross investment	20	30	50

In which of these years will the country be faced with a balance of trade deficit?

	year 1	year 2	year 3
A	no	no	yes
B	yes	yes	no
C	no	yes	yes
D	yes	no	no

18 Which row correctly identifies net leakages from the circular flow of income?

	trade surplus (exports - imports)	government budget deficit (government spending - taxes)	private sector surplus (saving - investment)
A	✓	✓	✗
B	✓	✗	✗
C	✗	✓	✓
D	✗	✗	✓

19 According to monetarist theory, which policy objectives are in conflict in the short run, but **not** in the long run?

A economic growth and full employment

B economic growth and price stability

C price stability and equilibrium in the balance of payments

D price stability and full employment

20 Let C = consumption, I = investment, X = exports, M = imports, Y = national income in an economy with no government sector.

If C = 20 + 0.9Y, I = 60, X = 120 and M = 100, what will be the equilibrium level of Y?

A 100 **B** 180 **C** 1000 **D** 2000

© UCLES 2012

21 Assuming a constant income velocity of circulation of money, if real output grows by 4 %, and the money supply grows by 3 %, what will be the approximate change in the price level?

A –1 % **B** +1 % **C** +3 % **D** +7 %

22 During a recession a government's expenditure exceeds its tax revenue. Which policy might prevent upward pressure on interest rates?

A privatisation of government owned enterprises

B purchases of government bonds by the country's central bank

C sales of foreign currency from the official reserves

D sales of government bonds to the general public

23 An economy's GDP per capita grows over a certain period of time, but its development when measured by the Human Development Index remains unchanged.

What could explain the difference?

A a decline in life expectancy

B an increased crime rate

C increased pollution

D shorter working hours

24 How can cyclical growth, as opposed to long-run economic growth, be shown on a diagram?

A an inward shift in a production possibility curve

B an outward shift in a production possibility curve

C a movement from a point inside a production possibility curve to a point on the curve

D a movement from a point outside a production possibility curve to a point on the curve

25 In the long run, productive potential in an economy grows at an average rate of 3 % per year. In a particular year actual growth is zero because of a fall in domestic consumption.

What is likely to occur?

A an increase in unemployment

B an increase in the rate of inflation

C an increase in the trade deficit

D a reduction in the government budget deficit

26 A developing country's level of debt rises.

In which circumstance is this **least** likely to be a problem?

A Global aggregate demand is falling.

B Global real interest rates rise.

C The country's Gross Domestic Product rises by less than its debt.

D The debt finances capital investment.

27 The natural rate of unemployment in an economy is 5%.

What will happen if a government persists in trying to achieve a target rate of unemployment of 3% by expansionary monetary policy?

A an accelerating rate of inflation

B a diminishing rate of inflation

C a high but constant rate of inflation

D a negative rate of inflation

28 What is the best measure of the economic cost of an increase in unemployment?

A the loss of potential exports

B the money value of the additional social security benefits paid

C the goods and services the unemployed workers could have produced

D the additional social security benefits paid plus the loss of tax revenue from newly redundant workers

29 What is the most effective policy a government could introduce to reduce frictional unemployment?

A cut welfare spending on benefits

B improve information about job vacancies

C reduce tax rates

D raise interest rates

30 What is likely to be the effect on developing economies of an increase in inward foreign direct investment?

A an acceleration of technology transfer

B an increase in the burden of debt

C an increase in visible trade deficits

D a slowdown of rural-urban migration

© UCLES 2012

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 2012