UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Level

ECONOMICS **9708/31**

Paper 3 Multiple Choice (Supplement) **October/November 2013**

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.
DO **NOT** WRITE IN ANY BARCODES.

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.

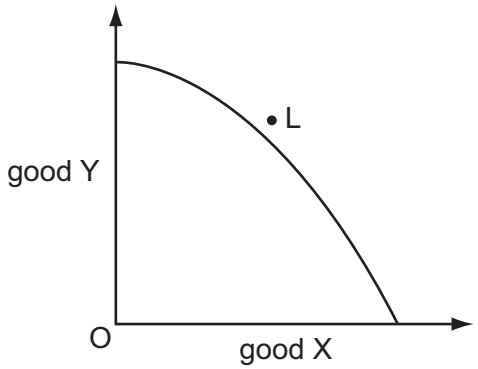
Read the instructions on the Answer Sheet very carefully.

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 **13** printed pages and **3** blank pages.

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1 The diagram shows the production possibility curve for an economy.



What might make it possible for consumers in this economy to consume the combination of goods X and Y indicated by the point L?

A a reduction in unemployment

B the achievement of productive efficiency

C the elimination of a monopoly in the production of good X

D trade with other economies

2 The table shows the marginal utility derived by a consumer who devotes the whole of his weekly income of $42 to two goods X and Y. Good X costs $3 per unit and Good Y $6 per unit.

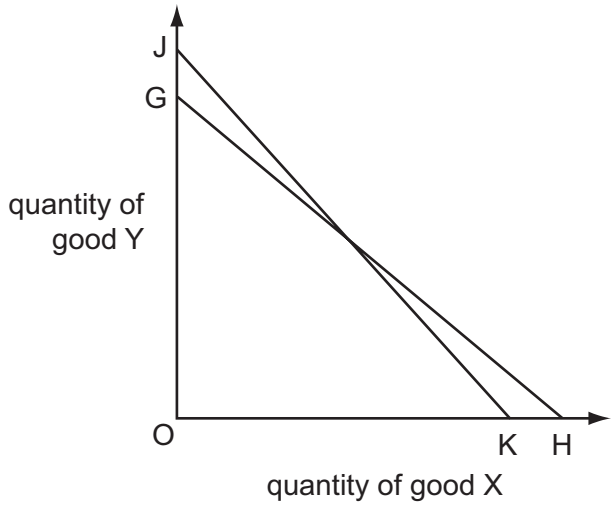
unit	marginal utility of X (units)	marginal utility of Y (units)
1	12	34
2	11	30
3	10	26
4	9	22
5	8	18
6	7	14
7	6	10
8	5	6

In order to maximise his utility, which quantities of X and Y should the consumer purchase?

	X	Y
A	2	6
B	4	5
C	6	4
D	8	3

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



Which statement must be correct?

A There has been an increase in the consumer's money income.

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

C Good Y has become relatively more expensive.

D The price of good X has increased.

4 A firm in an initial profit maximising position employs two factors, X and Y, to produce a good which is sold for $3.

Factor prices and productivities change. The new values are given in the table.

factor	marginal physical product	price ($)
X	2	4
Y	5	20

What should the firm employ to achieve equilibrium?

A less of both X and Y

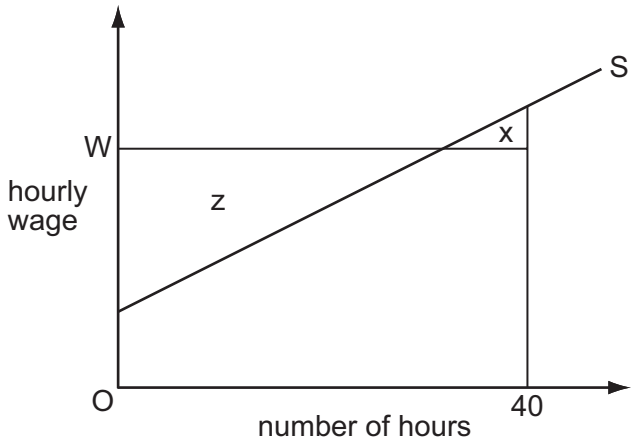
B more of X and less of Y

C more of Y and less of X

D more of both X and Y

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5 The diagram shows an individual worker's supply curve of labour.

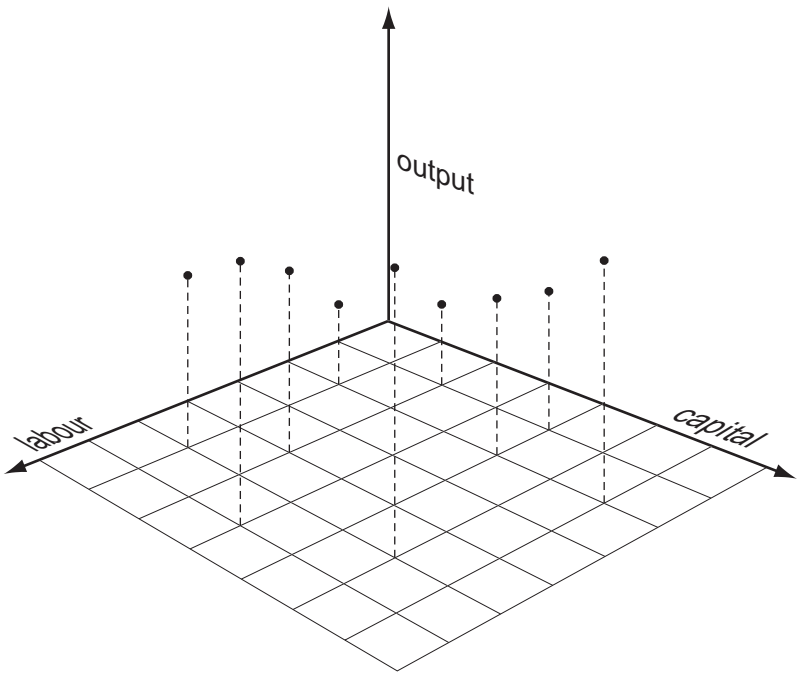


The hourly wage is OW and the worker is compelled to work a 40-hour week.

Which area measures the worker's economic rent?

A x **B** z **C** z – x **D** x + z

6 In the diagram the heights of the vertical broken lines show the levels of output a firm can produce with different combinations of labour and capital.



What is the relationship between factor inputs and the level of output shown in the diagram called?

A a long-run cost function

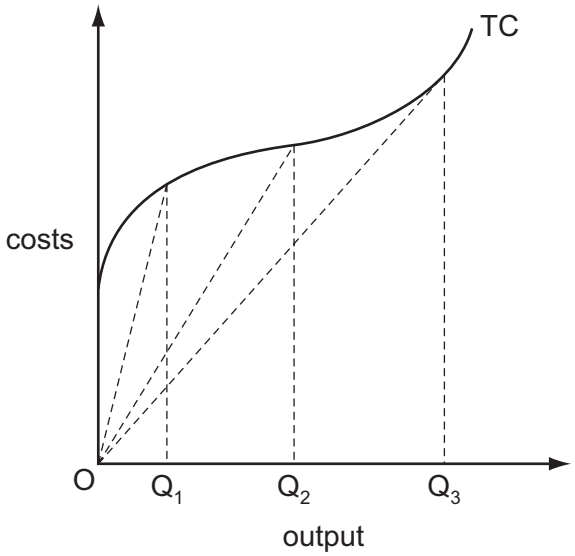
B a long-run production function

C a short-run cost function

D a short-run production function

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7 In the diagram, TC is a firm's short-run total cost curve.



Which statement is correct?

A Average total cost is minimised at output OQ_2.

B Average variable cost is minimised at output OQ_1.

C Average variable cost is minimised at output OQ_3.

D Marginal cost is minimised at output OQ_2.

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

	$(000)
wages and salaries	150
opportunity cost of owner's time	40
materials	80
rent of buildings	30
marketing fees	20
interest on bank loans	25
interest forgone on finance provided by owner	15
depreciation of equipment	20

What would an accountant calculate to be the total cost incurred by the firm?

A $275 000 **B** $305 000 **C** $325 000 **D** $340 000

9 Firms can grow internally or externally.

Which strategy is an example of a commercial bank growing internally?

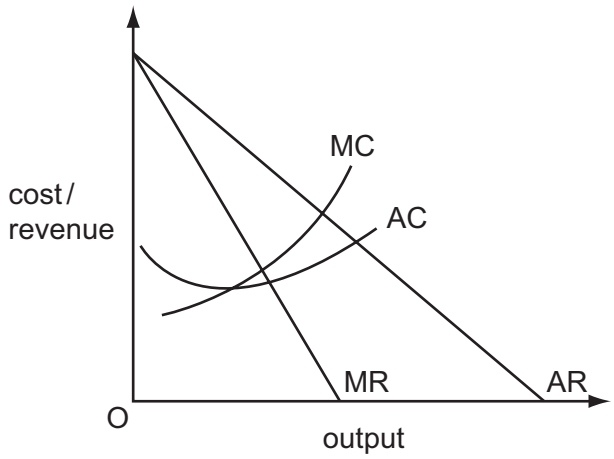
A the bank cutting its costs by rationalising its structure

B the bank merging with another commercial bank

C the bank opening new branches

D the bank taking over an insurance company

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



The firm changes its objective from sales revenue maximisation to profit maximisation.

How will this affect the net economic welfare of the following groups in the short run?

	customers	workers
A	fall	rise
B	fall	fall
C	rise	rise
D	rise	fall

11 A market structure in which a small number of firms face competition from potential entrants.

What does this describe?

A a contestable market

B a monopoly

C perfect oligopoly

D monopolistic competition

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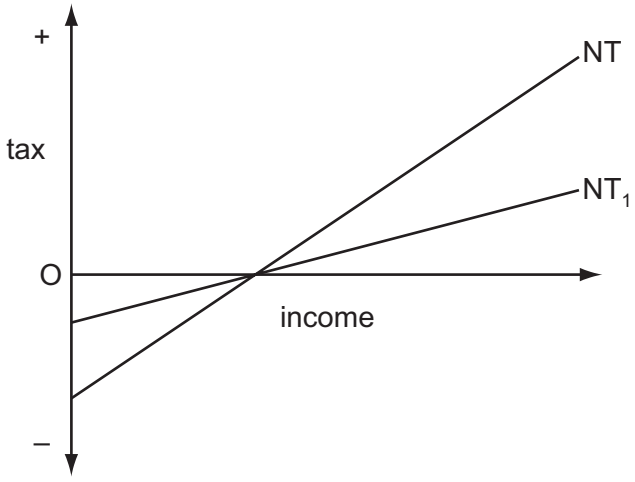
12 At its current level of output, a monopolist is on the price-inelastic part of its demand curve.

What will be the effect of an increase in the price charged by the firm on its output and on its profits?

	output	profits
A	decrease	increase
B	decrease	uncertain
C	increase	increase
D	increase	uncertain

13 A country has a negative tax income regime.

The curve NT in the diagram shows the country's initial tax schedule.



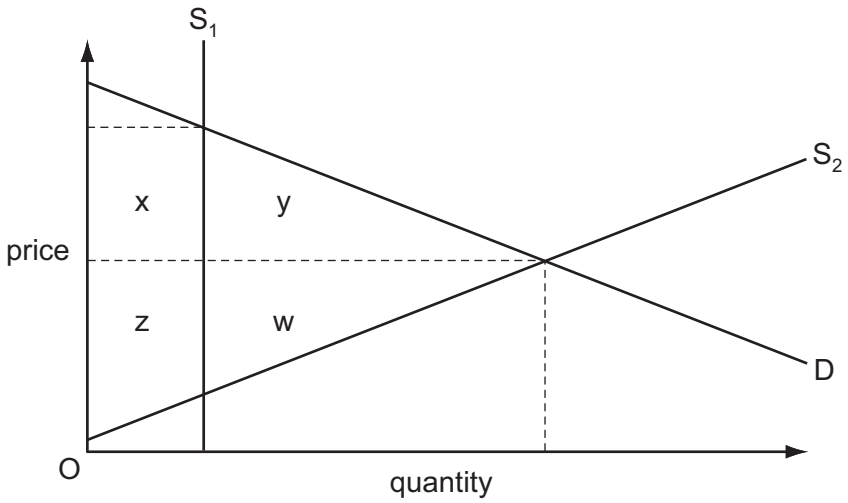
A change in the tax rate causes the schedule to shift to NT_1.

How will this affect work incentives and the after-tax distribution of income?

	work incentives	distribution of income
A	strengthen	less equal
B	strengthen	more equal
C	weaken	less equal
D	weaken	more equal

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14 The diagram shows the market for new cars. Currently the quantity supplied is fixed by the government at S_1.



If the market was deregulated the supply curve would be S_2.

Which area measures the net welfare gain of removing the restriction on the quantity supplied?

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

15 What are the losses in economic efficiency that are likely to result from a policy of income redistribution from the rich to the poor?

	disincentive effects	distortion of individual choices between work and leisure	administrative costs of the redistribution policy
A	yes	yes	no
B	yes	yes	yes
C	no	no	no
D	no	no	yes

16 A government regulates the price charged by a monopolist.

In which circumstance will such intervention improve economic efficiency?

A The government sets the price where average revenue equals marginal cost.

B The government sets the price where marginal cost is below average cost.

C The intervention results in an increase in producer surplus.

D The intervention results in predatory pricing.

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17 How are the weights applied to the different indicators used to construct the United Nations' Human Development Index determined?

A by the amount a country falls short of the maximum value of each indicator

B by the proportion of GNP a country devotes to promoting each of the indicators

C by the relative importance attached to the different indicators by the United Nations

D by the relative size of each country's population

18 Which assets are included within the definition of broad money but **not** within the definition of narrow money?

A commercial banks' deposits at the central bank

B commercial banks' till money

C notes and coins in circulation

D private sector savings (deposit) accounts

19 When national income equals $30 000 million and government spending equals $15 000 million, an economy is in equilibrium below full employment. Out of every increase of $100 in national income, $10 is taken in taxes, $25 is spent on imports and $15 is saved.

To raise national income to the full employment level of $50 000 million, to which level will the government need to raise its own spending?

A $20 000 million

B $25 000 million

C $30 000 million

D $35 000 million

20 In a banking system, all banks maintain 20% of deposits as cash.

One bank receives a new cash deposit of $200. Subsequent net withdrawals of cash from the banking system are zero.

What will be the resulting increase in bank loans and the total increase in bank deposits?

	increase in bank loans $	total increase in deposits $
A	160	200
B	160	360
C	800	1000
D	1000	1000

21 A government finances an increase in spending by selling government securities to foreign residents.

What will be the immediate effect on the money supply and on the foreign exchange reserves?

	money supply	foreign exchange reserves
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

22 What will cause a fall in the quantity of money demanded?

A a rise in interest rates

B a rise in national income

C a rise in the price level

D a rise in wealth

23 The table gives the growth rate of nominal GDP, the population growth rate and the rate of inflation in one year for four countries.

Which country had the greatest growth in average living standards?

	nominal GDP growth rate %	population growth rate %	rate of inflation %
A	6	1	3
B	8	2	4
C	10	3	4
D	15	3	10

24 When might an increase in a government budget deficit be considered the most appropriate policy?

A when inflation is high

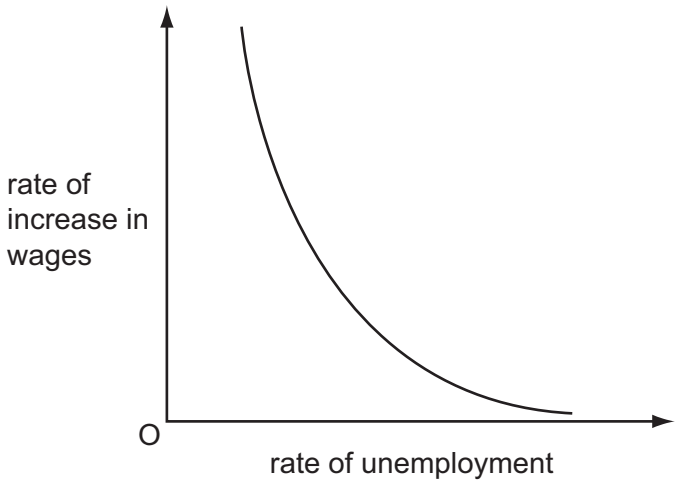
B when there is a balance of payments trade deficit

C when there is high cyclical unemployment

D when there is high structural unemployment

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25 The diagram shows the relationship between the rate of increase in wages and the rate of unemployment.



What would be likely to cause the curve in the diagram to shift downwards and to the left?

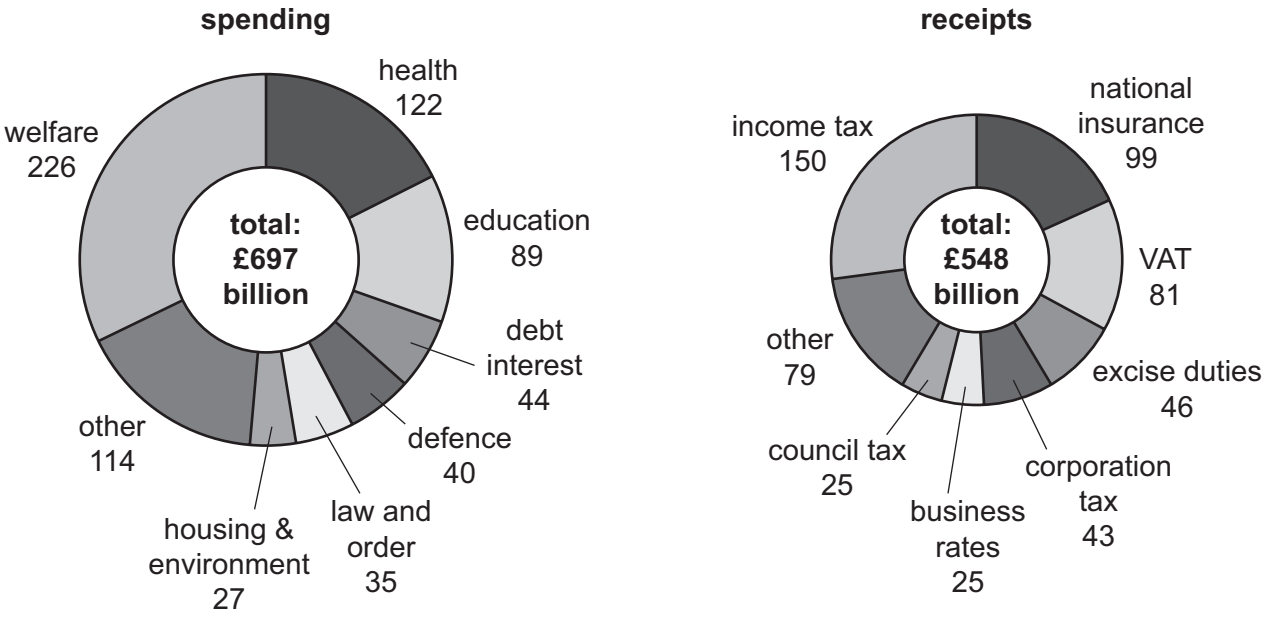
A an increase in regional differences in unemployment rates

B an increase in the proportion of the workforce belonging to trade unions

C an increase in the unemployment rate

D the expectation of a lower rate of inflation

26 The diagram shows details of the British Government's estimated spending and receipts for 2010–2011. All figures in UK £bn.



What can be concluded from the diagram?

	effect of largest spending item on income distribution	type of largest receipt item	overall budget balance
A	less equitable	indirect tax	deficit
B	less equitable	indirect tax	surplus
C	more equitable	direct tax	deficit
D	more equitable	direct tax	surplus

27 What do governments need to do to allow automatic stabilisers to work?

A adjust taxes in order to achieve a balanced budget

B keep welfare benefit rates and tax rates unchanged

C lower both taxes and government expenditure in a slump

D lower taxes in a boom and raise taxes in a slump

28 What is **not** a supply-side policy measure?

A deregulating industry to encourage more competitive markets

B linking unemployment benefits to the obligation to look for work

C tackling cyclical unemployment by lowering interest rates

D tackling structural unemployment by giving grants for labour mobility

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29 A country has a fixed exchange rate.

Which combination of problems would be most likely to cause the country's government to reduce taxation and lower interest rates?

A demand inflation and a balance of payments current account deficit

B demand inflation and a low level of investments

C high unemployment and a balance of payments current account deficit

D high unemployment and a low level of investment

30 An economy has a low level of unemployment. The government increases its expenditure.

Which method of financing the additional expenditure is most likely to cause inflation?

A an increase in borrowing from the Central Bank

B an increase in income taxes

C an increase in sales of state assets to the non-bank private sector

D an issue of bonds to the non-bank private sector

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