UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Level

ECONOMICS **9708/32**

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)

9969054754

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 What is the purpose of trying to achieve economic efficiency?

A to ensure that economic decisions are made equitably

B to ensure that firms are internationally competitive

C to ensure that firms maximise their profit levels

D to ensure that the economy does not waste scarce resources

2 The table shows the total utility that an individual derives from consuming different quantities of a good.

quantity of good (units)	total utility (units)
1	24
2	45
3	63
4	78
5	90
6	99

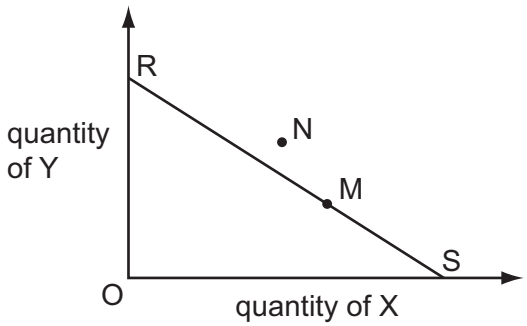
The individual's marginal utility of money is $1 = 2 units of utility.

What is the maximum quantity of the good that the individual will buy when its price is $6?

A 2 units **B** 3 units **C** 4 units **D** 5 units

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3 The line RS in the diagram shows the different combinations of goods X and Y that a consumer can afford with her present income.



The consumer's original equilibrium is at M.

What could explain a subsequent change in her equilibrium position to N?

A a change in her tastes

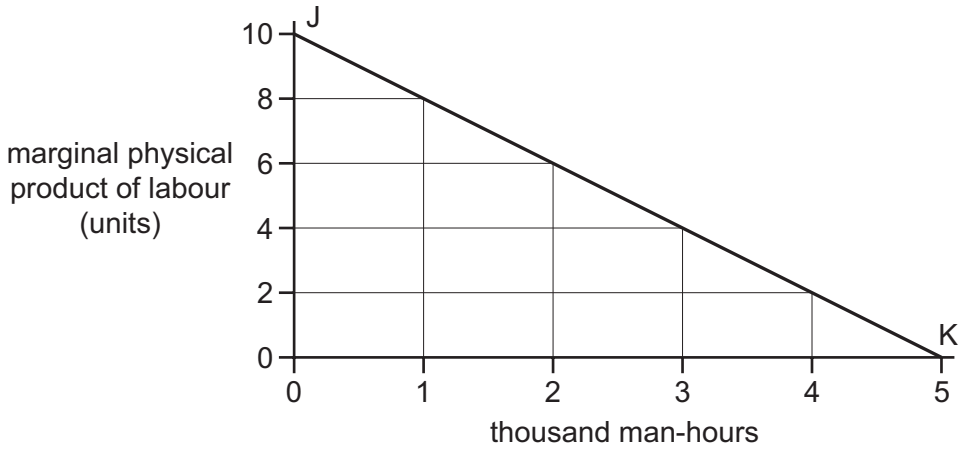
B an increase in the price of X and a fall in the price of Y

C an increase in the price of X and a smaller percentage increase in the price of Y

D equal percentage increases in her income and in both prices

4 A firm operates under perfect competition in both product and factor markets with labour as the only variable factor input.

In the diagram, the line JK shows the relationship between the marginal physical product of labour and the man hours hired.

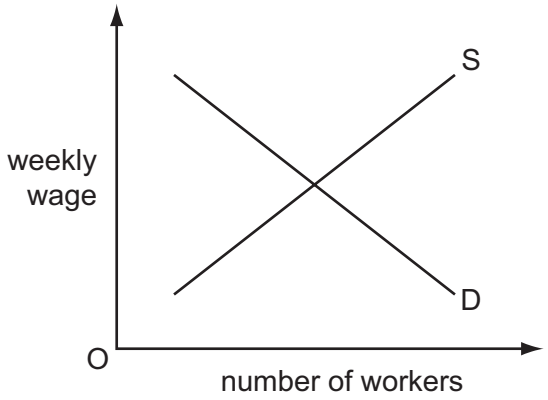


The price of the product is $1.60.

What will be the number of man-hours hired by the firm if the hourly wage is $6.40?

A 1000 **B** 2000 **C** 3000 **D** 4000

5 The diagram shows the initial position of a labour market.

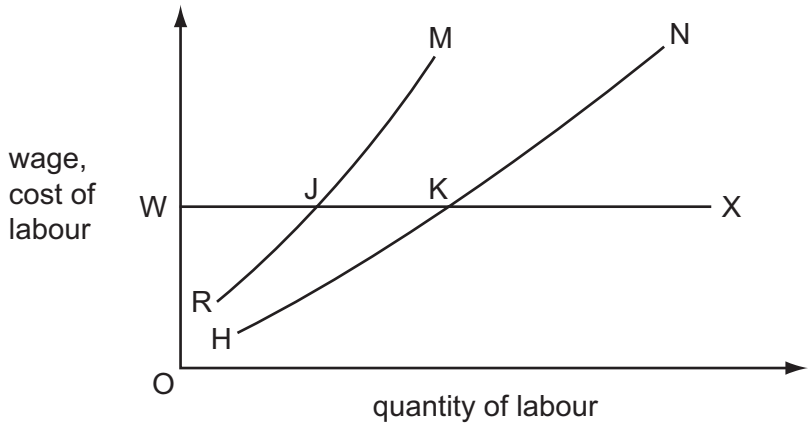


The government increases the number of statutory paid holidays to which workers are entitled from 10 days a year to 15 days a year.

How will this affect the supply and demand curves in the diagram?

	employers' demand curve	workers' supply curve
A	shifts to left	shifts to right
B	shifts to left	shifts to left
C	shifts to right	shifts to right
D	shifts to right	shifts to left

6 In the diagram, HN is the initial supply of labour curve faced by a firm, and RM is its initial marginal cost of labour curve.



What will be the firm's new labour supply curve, if the workers join a trade union and achieve a union negotiated wage, OW?

A RJX **B** HKX **C** WJM **D** WKN

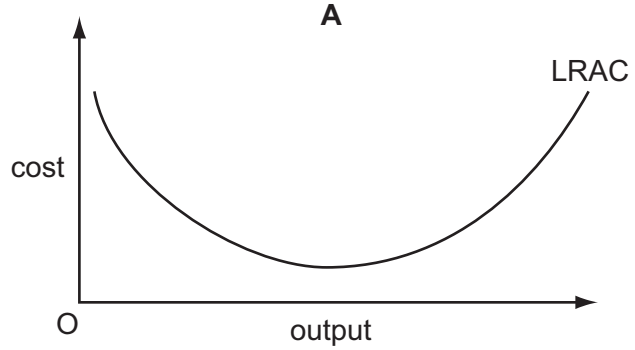
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7 The table shows a firm's long-run total cost schedule.

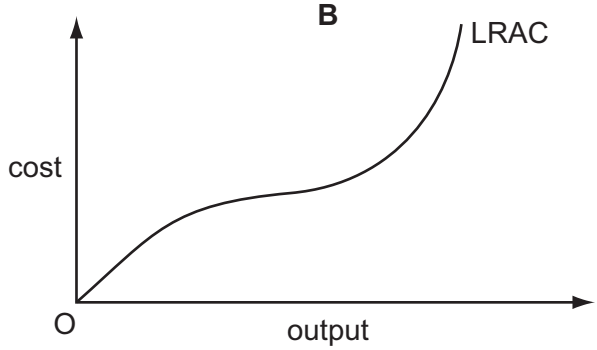
output of goods per month	total cost (US$)
100	100
200	120
300	150
400	200

Which graph shows the shape of the firm's long-run average cost curve?

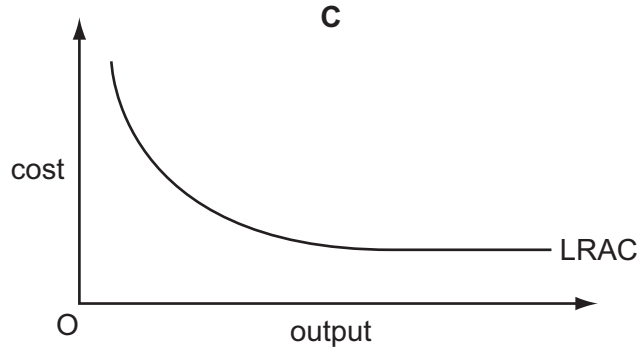
A



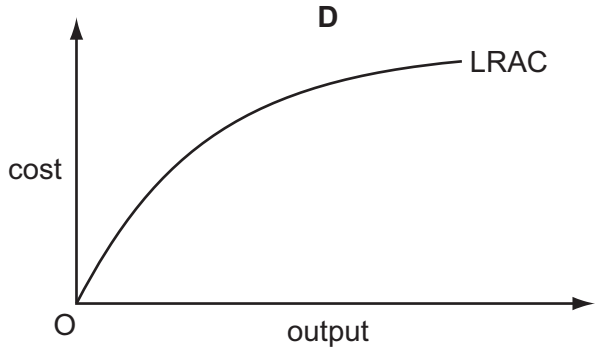
B



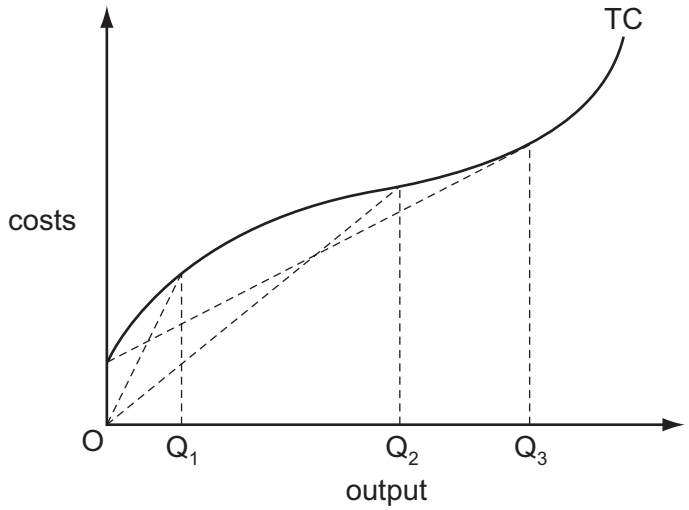
C



D



8 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_1.

9 What is an internal diseconomy of scale that often arises as a firm becomes larger?

A a more complex decision-making process

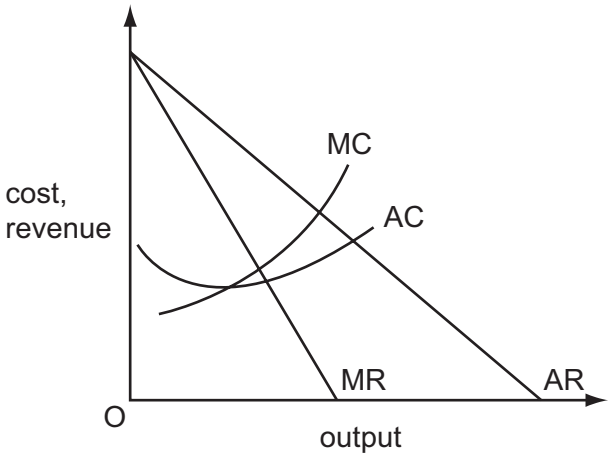
B an increase in the cost of raising finance for investment

C an increase in traffic congestion

D upward pressure on wages in the local labour market

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



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

Which groups are likely to be winners and losers as a result of this change?

	winners	losers
A	customers	shareholders
B	managers	customers
C	workers	managers
D	shareholders	workers

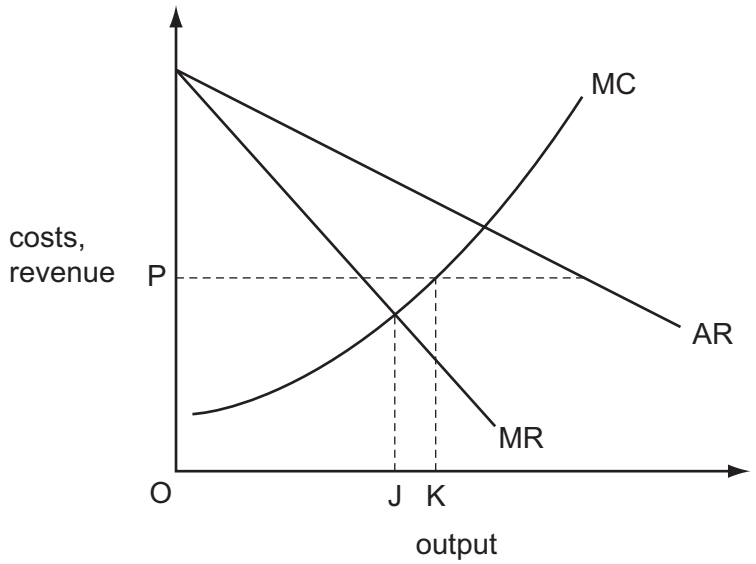
11 The table shows some of the assumptions of perfect competition and monopolistic competition.

Which pairing is correct?

	perfect competition	monopolistic competition
A	barriers to entry	small number of firms
B	differentiated products	large number of firms
C	freedom of entry and exit	barriers to entry
D	large number of firms	differentiated products

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



What would cause the firm to increase its output from OJ to OK?

A The government fixes the price at OP.

B The government requires the firm to charge a price equal to marginal cost.

C The government imposes an indirect tax on the firm's product.

D The firm is allowed to earn only a normal profit.

13 What makes it most likely that a firm's profits will be volatile and subject to substantial fluctuations?

A Fixed costs are a high percentage of total costs.

B It produces a diversified range of products.

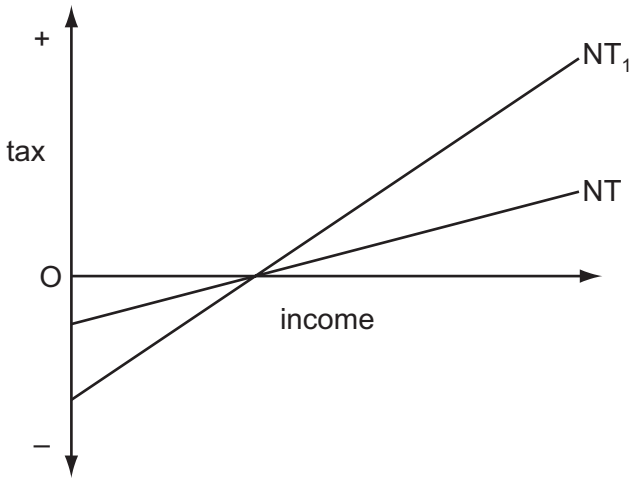
C It produces basic consumer products.

D It sells its product in a number of different markets.

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14 A country has a negative income tax.

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	more equal
B	strengthen	less equal
C	weaken	less equal
D	weaken	more equal

15 What is most likely to contribute to households finding themselves in a poverty trap?

A means-tested benefits

B progressive taxation

C regressive taxation

D universal benefits

16 The firms in a perfectly competitive industry combine to form a monopoly.

What would prevent a deadweight welfare loss resulting?

A The government imposes an indirect tax on the monopolist's product.

B The government requires the monopolist to charge a price equal to average cost.

C The monopolist adopts marginal cost pricing.

D The monopolist charges the same price to all consumers.

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17 What might cause the growth of measured GNP to overstate the 'true' rate of economic growth in an economy?

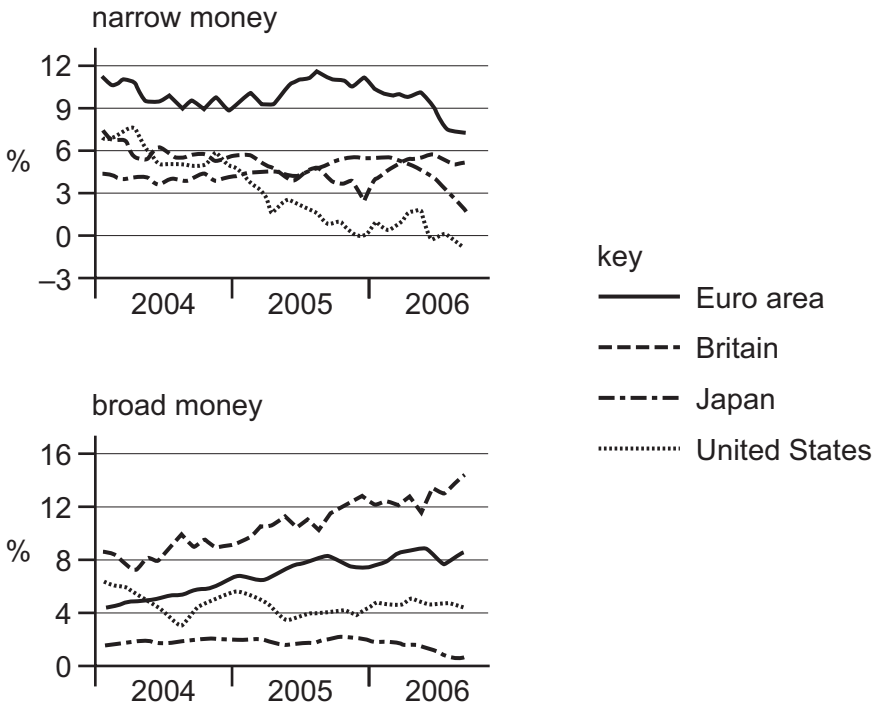
A People move from unpaid housework to paid employment.

B The exchange rate is overvalued according to purchasing power parity.

C There is a reduction in environmental pollution.

D There is a reduction in the rate of investment in physical capital.

18 The diagram shows changes in broad and narrow measures of money supply between 2004 and 2006.



Which is the only area to have experienced a contraction in either one of its measures of money supply?

A Euro area

B Britain

C Japan

D United States

19 Which assertion could be described as monetarist rather than Keynesian?

A The interest elasticity of investment expenditure is close to zero.

B The money supply is the main determinant of aggregate monetary expenditure.

C The money supply is the main determinant of output in the long-run.

D The velocity of circulation of money is unstable over time.

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20 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 m and increases taxation by $10 million.

What will be the impact on aggregate demand?

A It will be unchanged.

B It will increase by less than $10 million.

C It will increase by $10 million.

D It will decrease by $10 million.

21 According to loanable funds theory, what will cause the rate of interest to rise?

A a decrease in the demand for money

B an increase in the level of savings

C an increase in the rate of investment

D an increase in the supply of money

22 What is most likely to contribute to high long-term growth rates of GNP per head?

A government imposition of maximum prices for particular goods

B high rates of trade union membership amongst the labour force

C high ratios of saving to GNP

D restrictions on inward foreign investment

23 A country experiences cyclical unemployment due to a decrease in domestic spending.

If the government takes no action in response, what will be a likely consequence?

A an increase in the current account deficit on the balance of payments

B an increase in the government's budget deficit

C an increase in the rate of inflation

D an increase in the volume of investment

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24 What is a possible combination of a cost and a benefit of rising levels of unemployment?

	cost	benefit
A	a deterioration in human capital	an increase in capital expenditure
B	an increase in import expenditure	a decrease in government tax revenue
C	an increase in the rate of economic growth	a more responsive workforce
D	an irretrievable loss of output	a reduction in inflationary pressure

25 What would increase an economy's actual output but **not** its potential output?

A an increase in the capital available to the labour force

B an increase in the labour force's skill level

C an increase in the number in the labour force

D an increase in the proportion of the labour force employed

26 Which combination indicates that a country is operating a 'dirty float'?

	nominal exchange rate	foreign currency reserves
A	depreciates by 20%	decrease by $1 billion
B	depreciates by 20%	unchanged
C	unchanged	decrease by $1 billion
D	unchanged	unchanged

27 What is a reflationary fiscal measure?

A reducing interest rates

B increasing the money supply

C increasing taxes

D increasing government spending

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28 A country's government wishes to switch demand away from private consumption towards investment and net exports.

Which combination of policy measures would be most likely to help it achieve this objective?

	interest rates	rate of value added tax
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

29 A government aims to achieve steady and stable growth, in line with the economy's long-run increase in productivity.

If this objective is achieved, how is this likely to affect average living standards and the level of unemployment?

	average living standards	level of unemployment
A	constant	falling
B	falling	unchanged
C	rising	rising
D	rising	unchanged

30 During year 1, a government announces a temporary one-year reduction in the level of indirect taxation balanced by an equivalent temporary one-year increase in direct taxation.

What is most likely to be the impact on household saving in year 1 and in year 2?

	impact on household saving in year 1	impact on household saving in year 2
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

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