UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Level

ECONOMICS **9708/33**

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)

* 5 1 4 9 7 0 7 2 9 1 *

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.

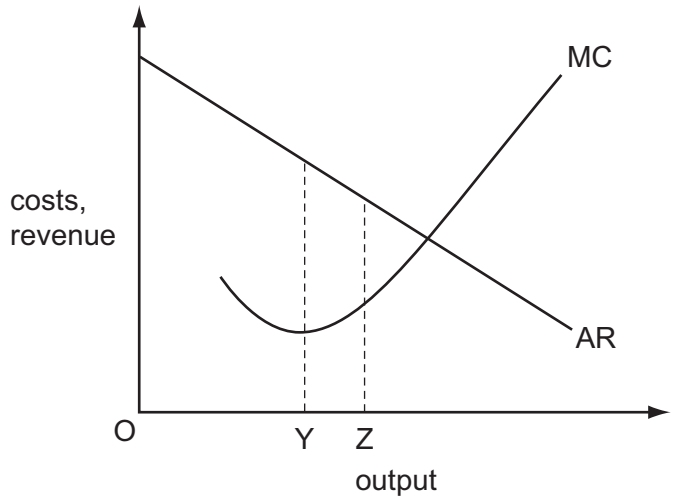
Read the instructions on the Answer Sheet very carefully.

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 **12** printed pages.

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1 In the diagram, a firm increases its output from OY to OZ.



Which statement about the effect on economic efficiency is correct?

A It will increase because a greater quantity will be produced and higher total revenue will be earned.

B It will increase because the value that consumers place on the product comes closer to the cost of producing the last unit.

C It will decline because both average and marginal revenue will fall.

D It will decline because both total and marginal cost will rise.

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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. The price of Good X is $3 and the price of Good Y is $6.

unit	marginal utility of X (units)	marginal utility of Y (units)
1	13	22
2	12	20
3	11	18
4	10	16
5	9	14
6	8	12
7	7	10
8	6	8

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

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

3 What is **not** held constant when calculating the income effect of a change in the price of a good?

A the consumer's money income

B the consumer's preferences

C the consumer's real income

D the prices of other goods

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4 The table shows the current position of a firm in a perfectly competitive industry.

	factor X	factor Y
marginal physical product	2	4
factor price	$5.00	$10.00

If the firm sells its product for $1 and aims to maximise profits, what should it employ?

A more of both X and Y

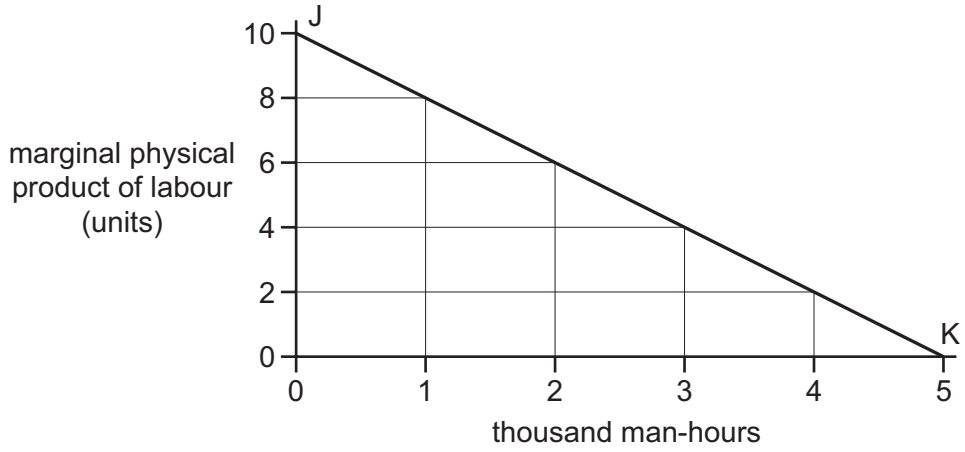
B more of X and less of Y

C more of Y and less of X

D less of both X and Y

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

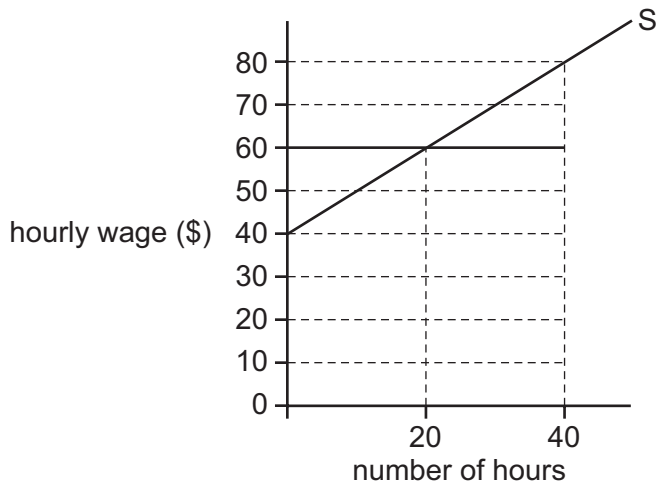
In the diagram, the line JK shows the relationship between the marginal physical product of labour and the man hours hired.



How many man-hours will the firm hire if the price of the product is $1.60 and the hourly wage is $3.20?

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

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



The hourly wage is $60 and the worker is compelled to work a 40-hour week.

What is the value of the worker's economic rent?

A $0 **B** $200 **C** $400 **D** $2400

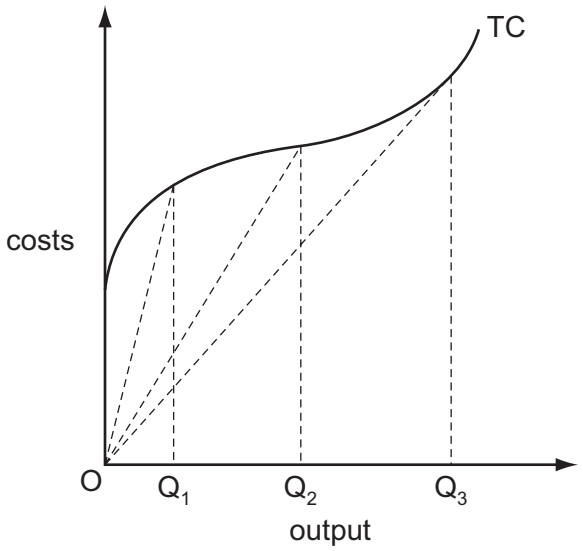
7 An economist calculates that a firm has incurred the following costs over the course of a year.

	$(000)
wages and salaries	150
opportunity cost of owner's time	40
materials	100
rent of building	30
marketing fees	20
interest on bank loans	25
interest forgone on finance provided by owner	30
depreciation of equipment	35

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

A $360 000 **B** $390 000 **C** $400 000 **D** $430 000

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_3.

B Average variable cost is minimised at output OQ_2.

C Average variable cost is minimised at output OQ_3.

D Marginal cost is minimised at output OQ_1.

9 The table shows the inputs of the two factors of production, capital and labour, needed to produce varying levels of output.

output	capital	labour
100	5	10
200	8	16
300	12	24
400	20	40
500	30	60

Over which range of output do constant returns to scale occur?

A 100 to 200 **B** 200 to 300 **C** 300 to 400 **D** 400 to 500

10 What is likely to make it more difficult for a small firm to survive?

A increased preference on the part of consumers for distinctive non-standardised products

B reductions in the rate of interest charged by commercial banks

C the absence of effective barriers to the entry of potential competitors

D the existence of decreasing returns to scale

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11 The demand for a firm's product is perfectly elastic.

What will be the effect on the firm's revenue if it increases its price by 5%?

A Its revenue will be unchanged.

B Its revenue will decrease by 5%.

C Its revenue will fall to zero.

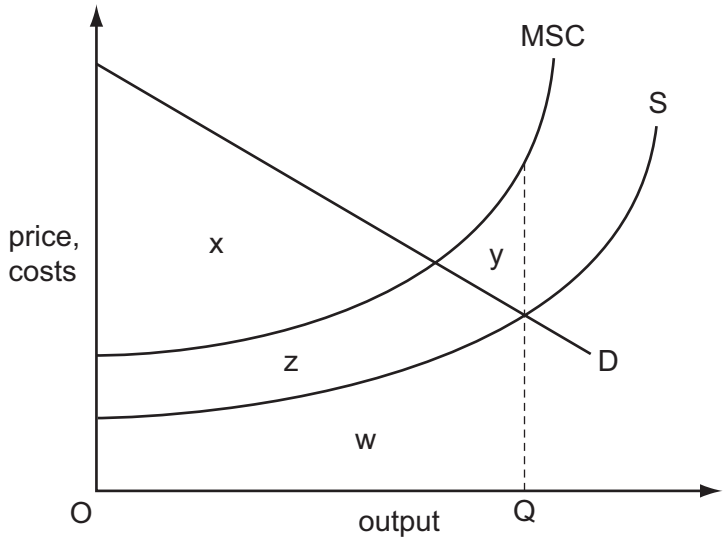
D Its revenue will increase by 5%.

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

Which pairing is correct?

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

13 The diagram shows the supply and demand curves of a good, and its marginal social cost of production (MSC).



Which area measures the net benefit to society if output OQ is produced?

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

14 The table compares some of the properties of universal benefits and means tested benefits.

Which pairing is correct?

	universal benefits	means tested benefits
A	greater disincentive effects	targeted at those most in need
B	higher take-up rate	more expensive
C	more expensive	greater disincentive effects
D	targeted at those most in need	higher take-up rate

15 What is most likely to occur when a command economy makes the transition towards becoming a market economy?

A an increase in unemployment in the short run

B a slower response to changes in technology

C a decrease in the production of consumer goods

D a decrease in the productivity of workers

16 Which combination is usually found in developing countries?

A a high birth rate and a dominant primary sector

B capital intensive production and a low rate of saving

C labour intensive production and a declining population

D net inward migration and a low death rate

17 According to monetarist theory, what will be affected in the long run by a change in the money supply?

	the level of output	the price level	the level of unemployment
A	no	no	yes
B	no	yes	no
C	yes	no	yes
D	yes	yes	no

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18 Which correctly identifies leakages from a country's circular flow of income?

	private sector S > I	government sector T > G	trade sector X > M
A	no	no	no
B	no	no	yes
C	yes	yes	no
D	yes	yes	yes

19 The statistics refer to an open economy with a government sector where

C = consumption expenditure

I = investment

G = government expenditure

X = exports

M = imports

Y = national income

In which situation is the economy in disequilibrium?

	C	I	G	X	M	Y
A	400	300	200	250	150	1000
B	500	300	200	250	150	1100
C	600	300	200	250	150	1200
D	800	300	200	250	150	1300

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 total increase in deposits within the system?

A $20 **B** $200 **C** $800 **D** $1000

21 A 6% increase in the money supply leads to a 4% increase in the level of money income.

What can be deduced from this?

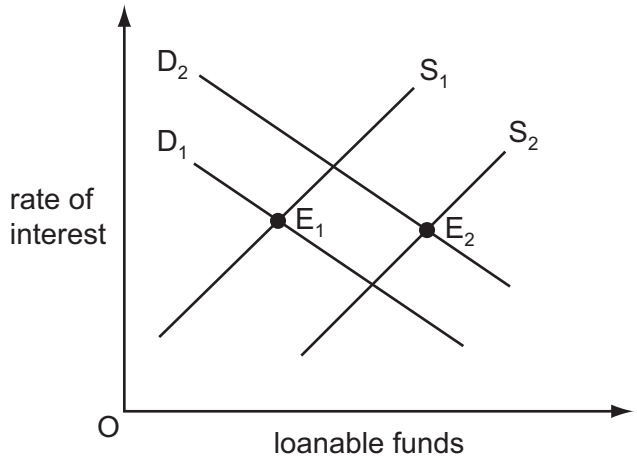
A There has been an increase in interest rates.

B There has been a decrease in the level of output.

C There has been a decrease in the velocity of circulation.

D The price level has increased by 2%.

22 The diagram shows the market for loanable funds.



Which changes could cause the equilibrium to move from E_1 to E_2?

A an increase in the propensity to save and an increase in bank lending

B the discovery of oil reserves and an increase in the propensity to save

C advances in technology and a decrease in bank lending

D a decrease in the propensity to save and the introduction of new products

23 The World Bank publishes statistics on changes in the number of people in the world who live on less than US$1 per day.

What do these statistics measure?

A the change in average living standards

B the extent of poverty

C the level of economic development

D the rate of economic growth

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24 Which of the following are characteristics of most developing economies?

	government debt: GDP ratio	average propensity to save
A	high	high
B	high	low
C	low	high
D	low	low

25 What will result from rising unemployment in an economy?

A a reduction in the government's budget deficit

B inflationary pressure will be reduced

C potential output will fall

D the economy's production possibility curve will move inwards

26 Why is a high ratio of government debt to GDP likely to cause a decline in a country's economic growth?

A Higher taxes to pay the interest charges on the debt will reduce the country's money supply.

B It will cause the growth in actual output to fall behind the country's long-term rate of growth.

C It will increase the cost of borrowing to both the government and the private sector.

D It will weaken the country's competitiveness by increasing unit labour costs.

27 Which policy would be most likely to improve a country's prospects of achieving a higher long-run rate of growth?

A an increase in the government's budget deficit

B an increase in tuition fees charged to university students

C intervention in the foreign exchange market to raise the exchange rate

D the introduction of tax incentives to encourage households to save more

28 What is most likely to result from foreign direct investment in developing economies?

A a deterioration in the trade balances of developing economies

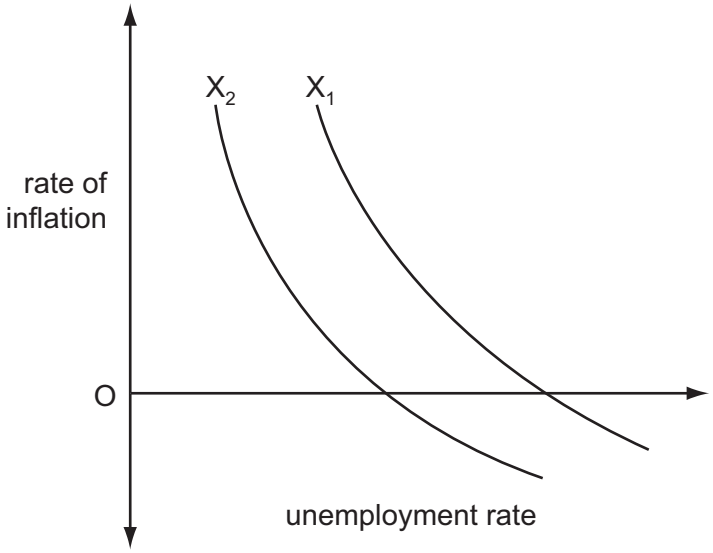
B a reduction in migration to urban areas

C a reduction in the transfer of technology to developing economies

D a rise in per capita levels of consumption in developing economies

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29 In the diagram, the curve X_1 shows an economy's initial trade-off between inflation and unemployment.



What could cause the curve to shift to X_2?

A a decrease in the money supply

B a decrease in the natural rate of unemployment

C an increase in the rate of interest

D the expectation of an increase in the inflation rate

30 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 income tax
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

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