Cambridge International A Level

Cambridge International Examinations
Cambridge International Advanced Level

ECONOMICS **9708/31**

Paper 3 Multiple Choice (Supplement) **October/November 2014**

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, 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.

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1 Which statement about efficiency is correct?

A Allocative efficiency occurs when marginal revenue equals marginal cost.

B An economy is productively efficient when it is producing at a point on its production possibility curve.

C An economy will improve its allocative efficiency when its production possibility curve moves outward.

D Productive efficiency occurs when the prices of goods equal their marginal cost of production.

2 The schedule shows the total utility derived by a consumer of a good X at different levels of consumption.

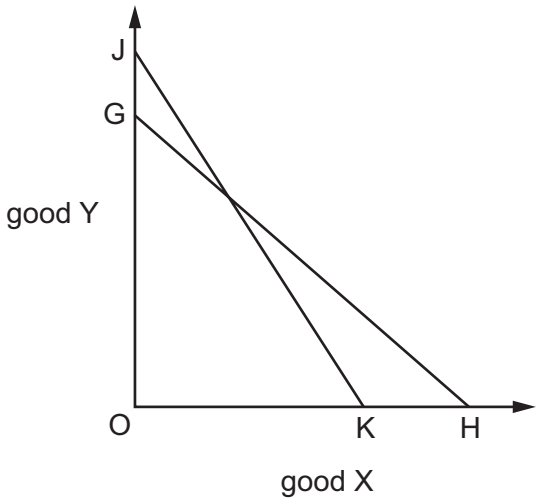
quantity of X consumed	1	2	3	4	5	6	7
total utility (units)	30	50	65	75	80	83	84

The consumer obtains two units of utility from the last $ she spends on each good that she purchases.

What is the maximum number of units of X that she will consume if the price of X is $5?

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

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



Which statement **must** be correct?

A The price of good X has increased relative to the price of good Y.

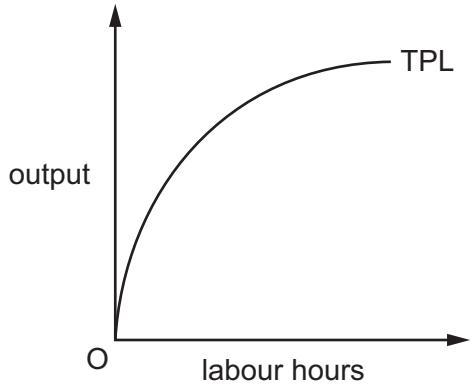
B The prices of both goods have fallen.

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

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

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4 The short-run production function in the diagram shows the relationship between the total product of labour and labour hours worked.



What is held constant when drawing this function?

A the average price level

B the hourly wage

C the size of the labour force

D the stock of capital

5 What is an example of a wage differential that compensates for the disadvantages associated with particular jobs?

A a tendency for wage rates negotiated by trade unions to exceed those for non-unionised labour

B government office workers being paid more than private sector office workers

C labourers on off-shore oil rigs earning more than those employed on-shore

D male workers earning more than female workers in the same job

6 To increase the labour force from 30 to 31 workers, an entrepreneur is forced to increase the daily wage rate from $40 to $41.

What is the marginal cost of labour per day?

A $1 **B** $31 **C** $71 **D** $1271

7 The workers in a firm have not previously belonged to a trade union but now join one.

In which circumstance is this most likely to raise their wages?

A Capital is highly substitutable for labour.

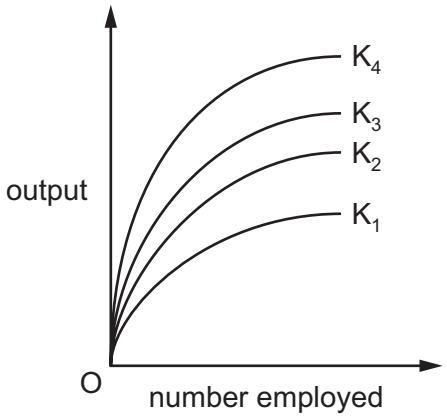
B Labour costs constitute a large fraction of the firm's costs.

C The demand for the firm's product is price-inelastic.

D The firm operates in a perfectly competitive labour market.

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8 The diagram shows the relationship between a firm's output and the number of workers employed at different levels of capital stock (K).



What does the diagram show?

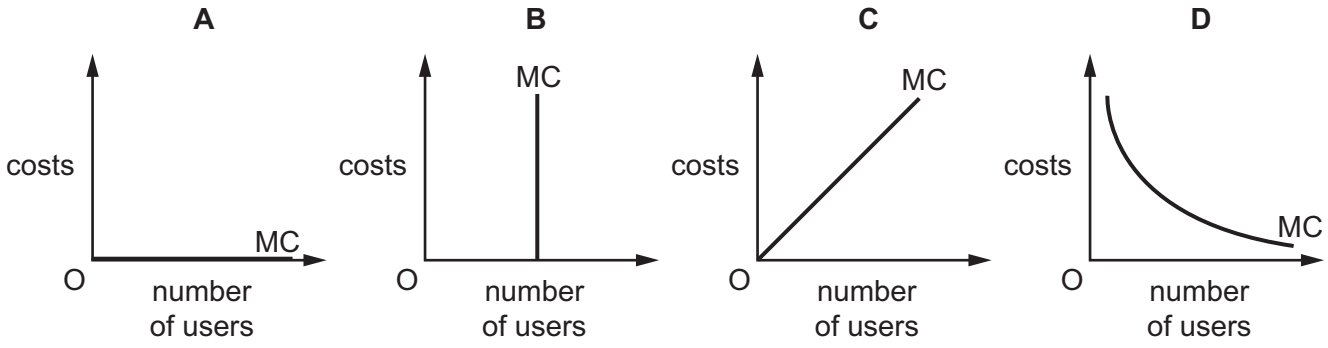
A the firm's long-run production function

B the firm's long-run rate of return on capital

C the firm's long-run total cost function

D the firm's short-run rate of return on capital

9 Which diagram shows the short-run marginal cost (MC) of providing a service where the total costs of production in the short run are fixed?



10 Which is a financial economy of scale?

A greater bargaining power in purchasing from suppliers

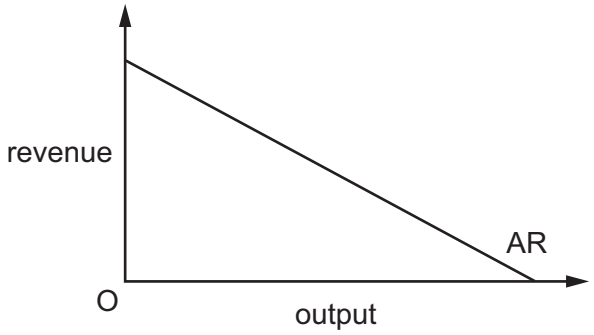
B greater diversification of the product range

C lower costs in raising capital

D lower distribution costs by increasing market share

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11 The diagram shows a firm's average revenue curve.



What can be deduced from the average revenue curve about the firm's total revenue as it increases output?

A It will rise continuously.

B It will fall continuously.

C It will rise initially then fall.

D It will fall initially then rise.

12 What is an assumption underlying the kinked demand curve in oligopoly?

A A firm will increase its price in response to a price increase by a rival.

B A firm will not match a price cut by a rival.

C Consumers are less sensitive to price increases than price decreases.

D Rivals are expected to match any reduction in price.

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

What would happen to price and output if it maximised its profits?

	price	output
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

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14 In many countries, laws exist which prohibit firms from copying innovations introduced by other firms.

What is the economic reason behind these laws?

A A degree of monopoly power can help to achieve allocative efficiency.

B A degree of monopoly power may be helpful in achieving technical progress.

C Research and development is best conducted by government organisations.

D The prices of goods produced by monopolies need to be regulated.

15 Which policy change will make some individuals better off without making anyone worse off?

A allowing farmers to buy and sell milk quotas

B introducing a national minimum wage

C introducing free bus travel for those over 60

D removing restrictions on the opening hours of supermarkets

16 A good gives rise to external benefits and is produced under conditions of monopolistic competition.

Which statement must be correct?

A Output of the good is at the socially optimum level.

B Output of the good is above the socially optimum level.

C Private costs exceed social benefits.

D Social benefits exceed private benefits.

17 A woman joins the labour force earning a salary of $25 000 per annum. Her partner, who is already employed, earns $18 000 per annum. The couple pay a childminder $8000 per annum to look after their baby.

What will be the increase in GDP?

A $17 000 **B** $25 000 **C** $33 000 **D** $51 000

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18 A central bank purchases government securities as part of a policy of quantitative easing.

What is likely to be the effect on interest rates and the supply of money?

	interest rates	money supply
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

19 An economy is operating at its natural rate of unemployment.

According to monetarist theory, what will be the effect of an unanticipated increase in the money supply on unemployment in the short run and in the long run?

	short run	long run
A	no change	no change
B	no change	reduction
C	reduction	no change
D	reduction	reduction

20 In an economy in which there is full employment, the marginal propensity to consume of pensioners is greater than that of taxpayers. Government expenditure on pensions is decreased by $20 billion.

To maintain full employment, taxation must be

A increased by more than $20 billion.

B increased by less than $20 billion.

C reduced by less than $20 billion.

D reduced by more than $20 billion.

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21 The table shows some data for an economy.

investment $m	exports $m	government expenditure $m	savings $m	imports $m	taxation $m	national income $m
200	100	100	100	120	100	700
200	100	100	120	140	100	800
200	100	100	130	170	100	900
200	100	100	140	200	280	1000

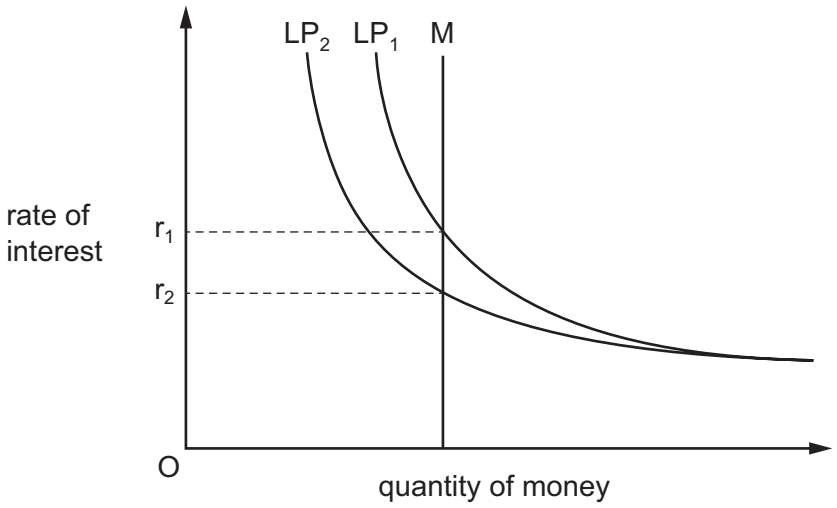
What is the equilibrium level of national income?

A $700 m **B** $800 m **C** $900 m **D** $1000 m

22 Assuming a constant income velocity of circulation of money, if the rate of inflation is 10% and the rate of growth of the money supply is 7%, what will be the approximate change in the volume of national output?

A –7% **B** –3% **C** +3% **D** +13%

23 The diagram shows two liquidity preference demand curves for money (LP). The money supply is M and the initial equilibrium rate of interest is r_1.



What could have caused the fall in the rate of interest from r_1 to r_2?

A an increase in output

B an increase in savings

C an increase in unemployment

D a rise in the price level

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24 What would be most likely to increase a country's long-run trend rate of growth?

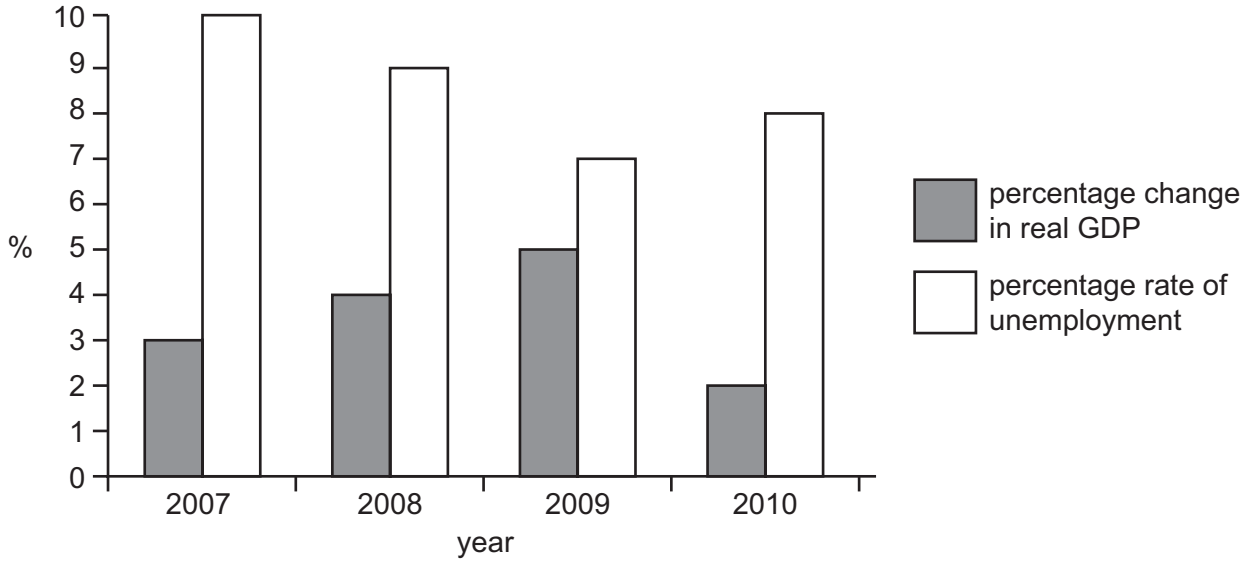
A an appreciation of the currency

B an increase in import tariffs

C an increase in the money supply

D a reduction in the ratio of Government Debt to GDP

25 The chart shows the rates of economic growth and unemployment in a country for the period 2007 to 2010.



What does the chart show?

A Real GDP was lowest in 2010.

B The standard of living fell between 2009 and 2010.

C The total labour force declined between 2007 and 2009.

D The unemployment rate fell when the growth rate increased.

26 The number of people employed in a country and the level of unemployment both decrease.

What could explain this?

A an increase in the age at which state pensions are payable

B an increase in the number of students

C an increase in the population of working age

D net inward immigration

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27 Which combination of government interventions would be intended to support the lower income group in an economy?

	welfare payment system	tax system	type of subsidy
A	means tested	progressive	food
B	means tested	proportional	private transport
C	universal	proportional	food
D	universal	progressive	private transport

28 The government of a major trading country imposes a tariff on imported goods.

What is likely to be the impact on the prices paid to the foreign producers of the goods and on the prices paid for the goods by domestic consumers?

	prices paid to foreign producers	prices paid by domestic consumers
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

29 In which set of circumstances is an economy likely to experience both falling inflation and, at the same time, falling unemployment?

	unemployment	actual growth rate in output
A	above the natural rate	above long-term trend rate of growth
B	above the natural rate	below long-term trend rate of growth
C	below the natural rate	above long-term trend rate of growth
D	below the natural rate	below long-term trend rate of growth

30 If the unemployment that exists in a country is judged to be mainly structural, which is the most effective policy the government could implement?

A increase subsidies for training

B increase the money supply

C reduce tax rates

D raise interest rates

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