Cambridge International A Level

Cambridge International Examinations
Cambridge International Advanced Level

ECONOMICS **9708/32**

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)

* 5 8 2 1 6 8 3 7 1 1 *

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 condition defines productive efficiency?

A All factors of production are fully employed.

B All firms are producing at their profit-maximising levels of output.

C There are no further opportunities for substituting capital for labour.

D The output of all goods is produced at the lowest possible cost.

2 A household makes the following purchases of fruit.

fruit	quantity purchased (kg)	price per kg ($)
bananas	5	1.00
apples	10	0.50

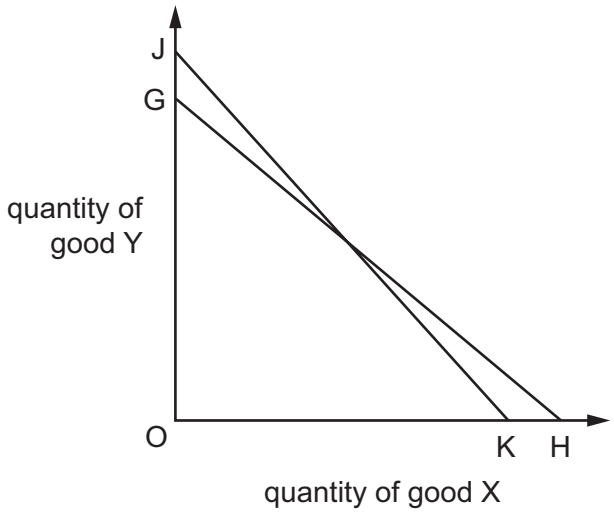
The household derives twice as much utility from the tenth kg of apples as from the fifth kg of bananas.

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

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

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



Which statement must be correct?

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

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

C Good Y has become relatively more expensive.

D Good X has become relatively more expensive.

4 A worker is considering accepting a job she has been offered. She draws up a list of the annual monetary values she places on the advantages and disadvantages of the job.

advantages and disadvantages of the job	value ($)
income	750
dangerous working conditions	500
long working hours	250
high prestige of the job	200
cost of providing own uniform	150
opportunity for travel	100
short holidays	50

What can be concluded from the table?

A She values the pecuniary advantages more highly than the non-pecuniary advantages.

B She would take the job even if it had none of the non-pecuniary advantages.

C The job has no pecuniary disadvantages.

D The non-pecuniary advantages outweigh the non-pecuniary disadvantages.

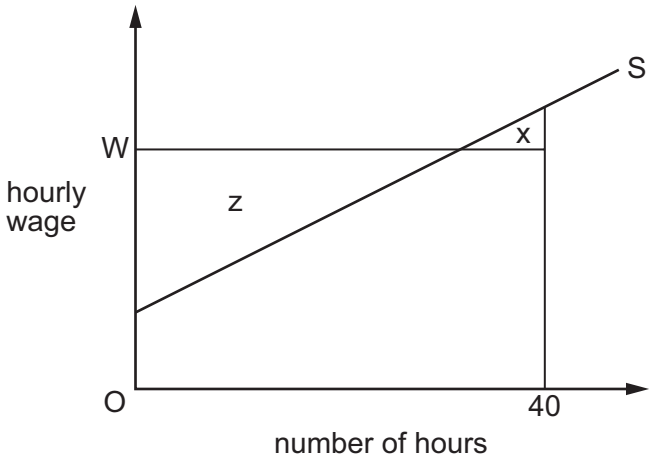
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5 To increase its labour force from 100 to 101 workers, a firm has to increase its daily wage rate from $500 to $502.

What is the marginal cost of labour per day?

A $2 **B** $200 **C** $202 **D** $702

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



The hourly wage is W and the worker is required to work a standard 40-hour week.

Which area measures the net improvement in the worker's welfare if he were allowed to choose the number of hours he wished to work per week?

A x **B** z – x **C** z + x **D** z

7 A firm's workers join a trade union which negotiates an increase in the workers' wage rate.

The increase in the wage rate results in an increase in the number employed by the firm.

What could explain this?

A The demand for the firm's product is price-elastic.

B The firm is a monopsonist within its local labour market.

C The firm operates in a perfectly competitive labour market.

D There is a high degree of substitutability between capital and labour.

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8 The table below shows the relationship between total output and total costs of a firm given constant factor prices and fixed factor proportions.

output	costs ($)
100	100
200	160
300	180
400	320
500	500

It follows that, over this range of output, the firm experiences

A decreasing returns for output between 100 and 300 and increasing returns for output larger than 300.

B increasing returns for output between 100 and 300 and decreasing returns for output larger than 300.

C decreasing returns throughout.

D increasing returns throughout.

9 In 2009, the United Kingdom's largest grocery supermarket, Tesco plc, created Tesco Bank offering a range of financial services to customers.

This is an example of

A external growth and horizontal merger.

B external growth and vertical merger.

C internal growth and diversification.

D internal growth and market concentration.

10 The price elasticity of demand for a firm's product is zero.

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

A Its revenue will be unchanged.

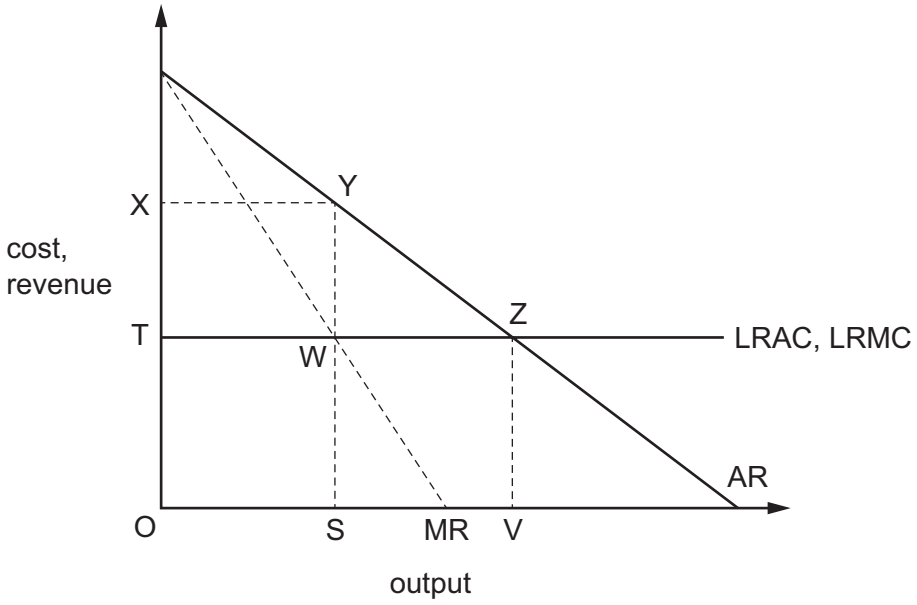
B Its revenue will decrease by 5%.

C Its revenue will increase by 5%.

D Its revenue will fall to zero.

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11 The diagram shows an industry producing under conditions of constant average costs.



Under perfect competition, the industry produces output OV.

Which area measures the increase in the industry's profits if it were to become a monopoly?

A XYSO **B** XYWT **C** XYZT **D** YZW

12 When is collusion likely to be successful in an oligopolistic market?

A Barriers to entry are relatively low.

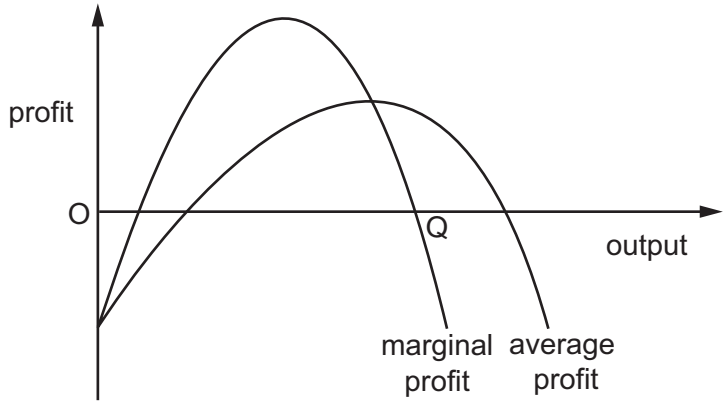
B Firms have accurate information about each other's output levels.

C There are significant differences in the firms' costs of production.

D There are significant fluctuations in demand from one period to another.

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13 The diagram shows how a firm's average profit and marginal profit vary at differing levels of output.



If the firm produces output OQ, which statement is correct?

A The firm is earning a zero profit.

B The firm is making a normal profit.

C The firm is maximising its profit.

D The firm is producing above its profit-maximising output.

14 A firm wishes to acquire some of the consumer surplus its customers currently enjoy.

How might it achieve this?

A by introducing price discrimination

B by reducing operating costs

C by setting a price that maximises revenue

D by taking advantage of economies of scale

15 A country's steel producers are members of a cartel. Each member is allocated a production quota, and initially produces the maximum allowed under its quota.

What will be the effect on total steel production and the industry's total profits of allowing the producers to trade the quotas among themselves?

	effect on production	effect on total profits
A	increase	increase
B	increase	no change
C	no change	increase
D	no change	no change

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16 The introduction of a minimum hourly wage for all workers over 21 years of age is expected to increase the average wages of these workers.

What will be the likely effect on workers under 21?

	unemployment for under 21s	average wages for under 21s
A	falls	fall
B	falls	rise
C	rises	fall
D	rises	rise

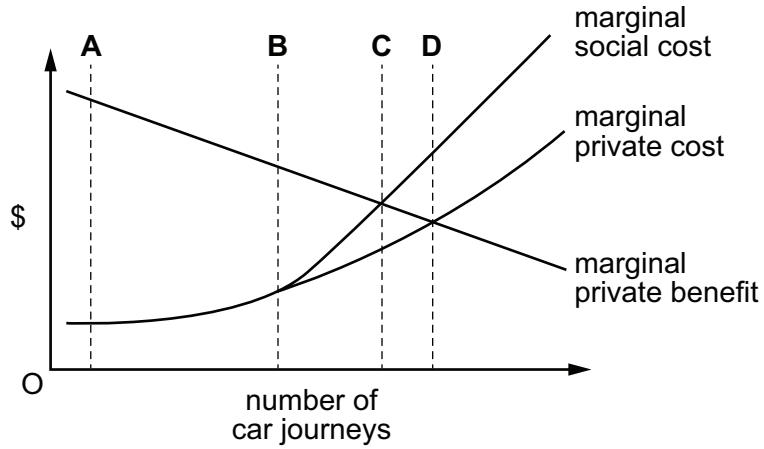
17 A government introduces tax incentives which promote effort and enterprise. They also redistribute income from those who receive a higher marginal utility from money to those with a lower marginal utility from money.

What effect will these tax incentives have on efficiency and equity?

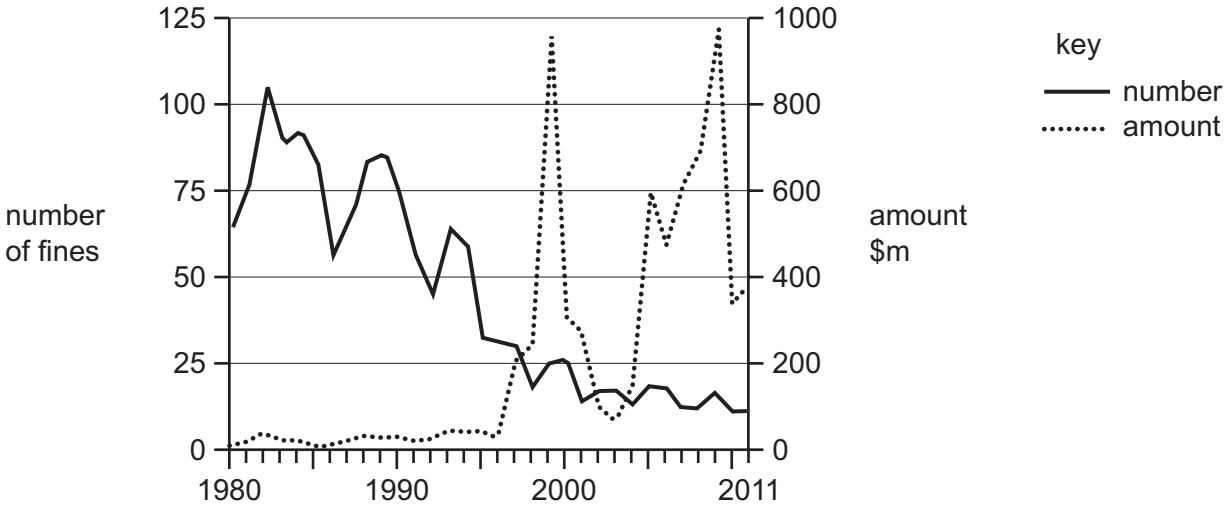
	efficiency	equity
A	increase	increase
B	increase	reduce
C	reduce	increase
D	reduce	reduce

18 The diagram shows the private and social costs and the private benefits that arise as the number of car journeys into a city centre increases.

In the absence of any external benefits, which volume of traffic would maximise the community's welfare if entry could be restricted through the issue of permits?



19 The diagram shows the number and amount of fines ($m) imposed by the US Department of Justice for firms' illegal cartel behaviour between 1980 and 2011.



What is the most likely conclusion from the diagram about the view of the US Department of Justice of firms' cartel behaviour?

A It believed that cartel behaviour was unimportant before 1980.

B It believed that illegal cartel behaviour was insignificant in 2011.

C It believed that increasing fines was necessary to deter cartel behaviour.

D It believed that the free market can regulate cartel behaviour.

20 During a year, a country's national income in money terms increased by 8%, total population increased by 2% and real income per head remained constant.

What was the approximate change in the average price level?

A a decrease of 4%

B an increase of 4%

C an increase of 6%

D an increase of 10%

21 A central bank pursues a policy of quantitative easing by purchasing government securities.

What is likely to happen to interest rates and aggregate expenditure?

	interest rates	aggregate expenditure
A	fall	fall
B	fall	rise
C	rise	fall
D	rise	rise

22 According to monetarist theory, if there is an unanticipated increase in the money supply what will be the short-run effect on money wages, real wages and the level of employment?

	money wages	real wages	employment
A	decrease	decrease	increase
B	decrease	increase	decrease
C	increase	decrease	increase
D	increase	increase	decrease

23 In a closed economy with no government C = 40 + 0.8 Y and I = 60, where C is consumption, Y is income and I is investment.

What is the equilibrium level of income?

A 80 **B** 100 **C** 300 **D** 500

24 A developing economy experiences a rapid growth in labour productivity.

What is most likely to result from this?

A an increase in the country's balance of trade deficit

B an increase in the country's relative labour costs

C a depreciation of the country's currency

D an increase in real income per head

25 Which change would cause an increase in a country's Human Development Index?

A a decrease in gender inequality

B a decrease in income inequality

C an increase in the mean years of schooling

D an increase in the retirement age

26 Real output in an economy grows by 2.5% but at the same time the level of employment decreases.

What can be deduced from this information?

A Actual output has grown more quickly than potential output.

B Labour productivity has increased.

C Population of working age has fallen.

D There has been an increase in the rate of inflation.

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27 A government decides to pursue a more reflationary fiscal policy and a more deflationary monetary policy.

Which combination of changes in policy instruments is consistent with this?

	government expenditure	interest rate	taxation
A	decrease	decrease	decrease
B	decrease	decrease	increase
C	increase	increase	decrease
D	increase	increase	increase

28 The table shows some indicators of macro-economic performance in the US economy for five decades.

economic target	1950s	1960s	1970s	1980s	1990s
real GDP growth (average %)	4.18	4.43	3.28	3.02	3.03
inflation (average %)	2.07	2.33	7.09	5.66	3.00
unemployment (average %)	4.51	4.78	6.22	7.27	5.76

Between which decades did the US government achieve an overall improvement in its performance with no trade-off between individual policy goals?

A 1950s to 1960s

B 1960s to 1970s

C 1970s to 1980s

D 1980s to 1990s

29 Why might a reduction in domestic interest rates have an adverse effect on a country's balance of payments on the current account?

A It will cause a rise in the exchange rate.

B It will make the country's industry less competitive.

C The resulting higher level of economic activity is likely to increase imports.

D There will be an outflow of capital from the country.

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[Turn over

30 At present, a country's government has set its central bank a target rate of inflation of 2%.

What is likely to happen to interest rates and the exchange rate if the target inflation rate is raised to 3%?

	interest rates	exchange rate
A	fall	fall
B	fall	rise
C	rise	fall
D	rise	rise

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