Cambridge International A Level

Cambridge International Examinations
Cambridge International Advanced Level

ECONOMICS **9708/33**

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)

8195654134

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.

© UCLES 2014

1 In an economy no one can be made better off without making others worse off.

What can be concluded from this?

A All markets are perfectly competitive.

B There are no externalities.

C The economy is operating on its production possibility curve.

D The distribution of income reflects what each individual deserves.

2 A consumer allocates his expenditure between three goods, X, Y and Z.

The table shows the consumer's marginal utilities for these goods and their prices.

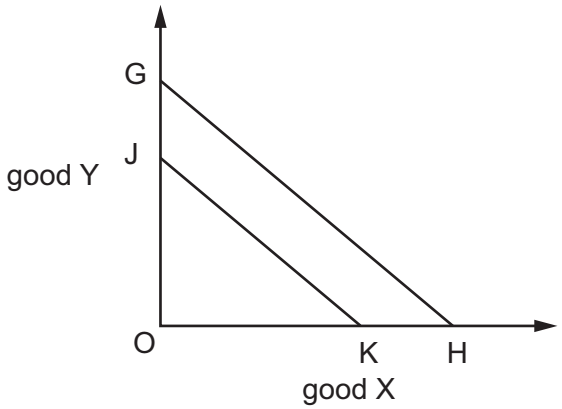
good	X	Y	Z
marginal utility (units)	3	5	10
price ($)	10	15	30

How should the consumer's expenditure be reallocated in order to maximise his utility?

	X	Y	Z
A	less	less	more
B	less	more	more
C	more	less	less
D	more	more	less

© UCLES 2014

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



Which statement is correct?

A There has been a decrease in the price of both X and Y.

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

C There has been no change in the price of X or Y.

D There has been no change in the price of X relative to the price of Y.

4 Night shift workers are often paid more than day shift workers performing the same tasks.

What could explain this observed wage differential?

A higher productivity of day shift workers

B non-pecuniary disadvantages of working night shifts

C the absence of competition between the two groups of workers

D the inclusion of economic rent in the wages paid to night shift workers

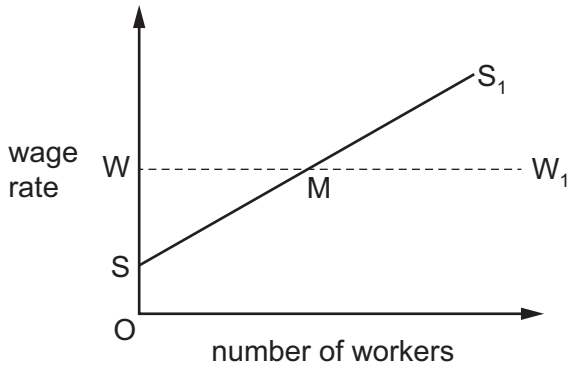
5 A firm currently employs 100 workers and its daily wage bill is $30 000.

An increase in its labour force to 101 workers would result in a $502 increase in its daily wage bill.

What is the marginal cost of labour per day?

A $2 **B** $202 **C** $502 **D** $30 502

6 The curve SS_1 in the diagram is the supply of labour curve facing a firm before the unionisation of its workforce.

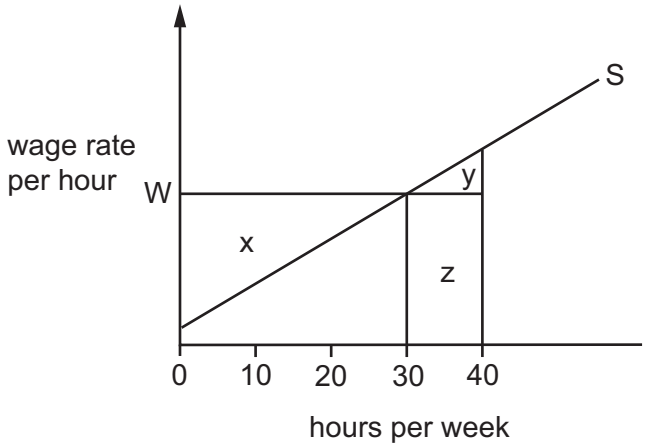


The union negotiates a wage equal to W.

What does the labour supply curve now become?

A MS_1 **B** SMW_1 **C** WW_1 **D** WMS_1

7 The diagram shows a worker's supply of labour curve.



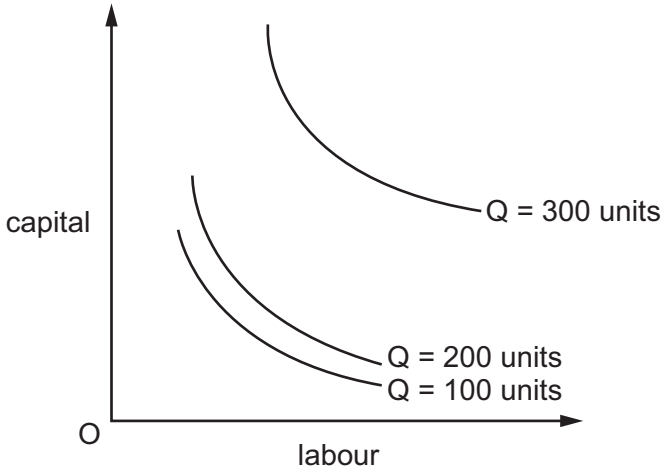
The worker is required to work a minimum of 40 hours a week at the hourly wage, 0W.

Which area measures the economic rent obtained by the worker?

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

© UCLES 2014

8 The curves in the diagram show the different combinations of capital and labour a firm needs to produce given levels of output.



What can be concluded from a comparison of curves in the diagram?

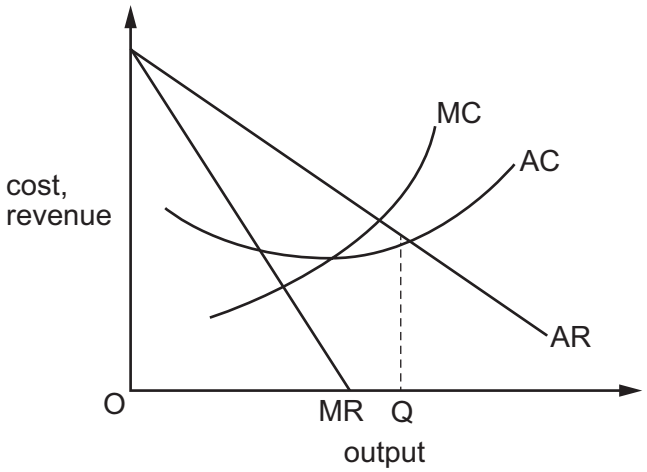
A Over the 100 to 200 units output range, the firm encounters constant returns to scale.

B Over the 100 to 200 units output range, the firm encounters decreasing returns to scale.

C Over the 200 to 300 units output range, the firm encounters decreasing returns to scale.

D Over the entire range of output, the firm encounters increasing returns to scale.

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



What could explain why the firm produces output OQ?

A It is operating in a perfectly competitive market.

B It is seeking to achieve satisfying profits.

C It is seeking to maximise profits.

D It is seeking to maximise sales revenue.

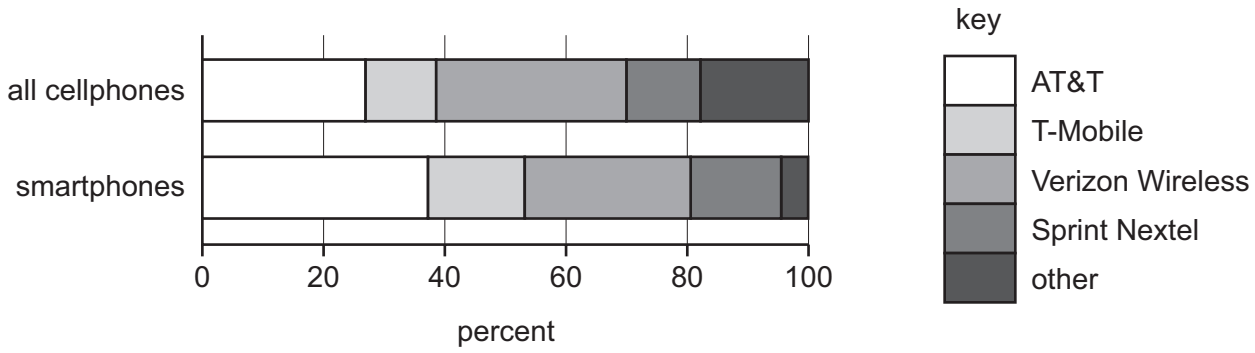
10 The table shows the total revenue and marginal cost of a firm at different levels of production.

production (tonnes)	total revenue ($)	marginal cost ($)
2	100	10
3	130	15
4	160	20
5	190	25
6	220	30
7	250	40

Given the firm wishes to maximise its profits, what is the highest output the firm will produce?

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

11 The diagram shows the percentage market share of mobile network operators in the US in January 2011.



What can be concluded from the diagram?

A AT&T has the largest share of both markets.

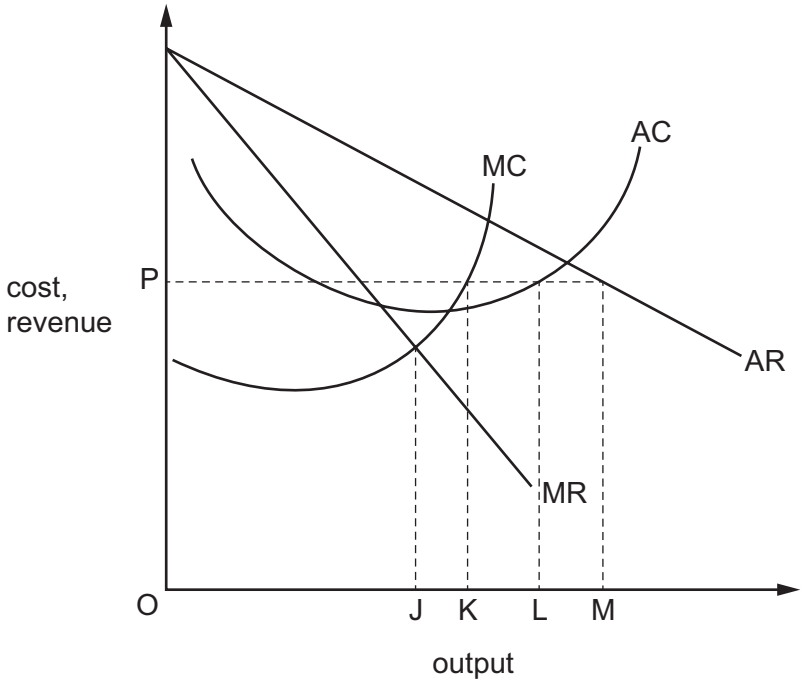
B Small firms are unable to survive in either market.

C The four firm concentration ratio is greater than 80% in both markets.

D The market for smartphones is more competitive than the market for all cellphones.

© UCLES 2014

12 In the diagram, MC and AC are a profit-maximising monopolist's marginal and average cost curves, and MR and AR, its initial marginal and average revenue curves.

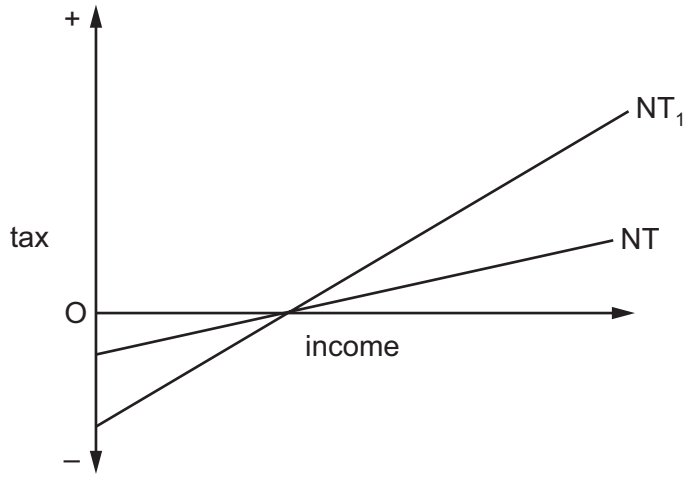


Which distance will measure excess demand if the government sets a maximum price of P?

A JK **B** KL **C** KM **D** LM

13 A country has a negative income tax system.

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.

What is likely to be the impact on efficiency and on equity?

	efficiency	equity
A	improvement	improvement
B	improvement	worsening
C	worsening	improvement
D	worsening	worsening

14 The table shows the costs of two milk producers.

	cost per litre ($)
firm X	10
firm Y	7

The price received by producers is $12 per litre. Both firms have been given quotas allowing them to produce 200 litres per day.

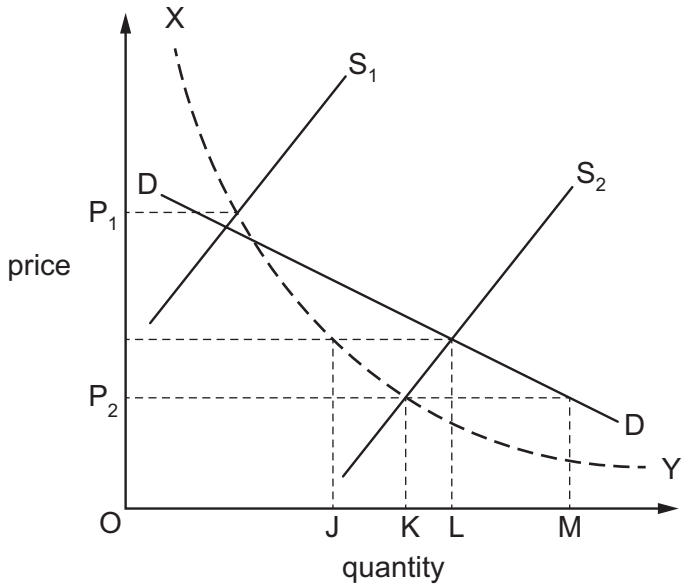
Firm Y asks firm X if it can buy firm X's quota.

Assuming constant costs of production and zero costs of entry and exit, what is the minimum amount (per day) firm X would be willing to accept to sell its quota to firm Y?

A $400 **B** $600 **C** $1000 **D** $2400

© UCLES 2014

15 In the diagram, DD is the demand curve for an agricultural commodity, S_1 is the supply curve in period 1 and S_2 is the supply curve in period 2. The broken curve XY is a rectangular hyperbola.



The government operates a buffer stock scheme designed to keep farm revenue unchanged.

In period 1 the price is fixed at P_1.

What action will the government need to take in period 2 to fix the price at P_2?

A add quantity JK to the buffer stock

B add quantity KL to the buffer stock

C release quantity KL from the buffer stock

D release quantity KM from the buffer stock

16 What acts as a constraint on the use of income taxes to redistribute income to poorer groups in society?

A the costs to employers of tax collection

B the fact that poorer groups have a higher marginal propensity to save

C the fact that richer and poorer groups have the same marginal propensity to consume

D the likelihood that, at some point, higher marginal taxes will reduce tax revenue

17 Between 2008 and 2009 a country's national income at current prices increased by 15%. At the same time the country experienced 5% inflation.

Which index number most closely represents the country's national income in 2009 at 2008 prices (2008 = 100)?

A 103 **B** 110 **C** 115 **D** 120

18 Despite a government budget deficit, a country's money supply remains unchanged.

What could explain this?

A The country has a balance of payments surplus equal to the government budget deficit.

B The country's foreign exchange rate is fixed.

C The government budget deficit is financed by borrowing from the central bank.

D The government budget deficit is financed by selling government bonds to members of the public.

19 The table shows data on a country's gross national product at market prices and on domestic spending.

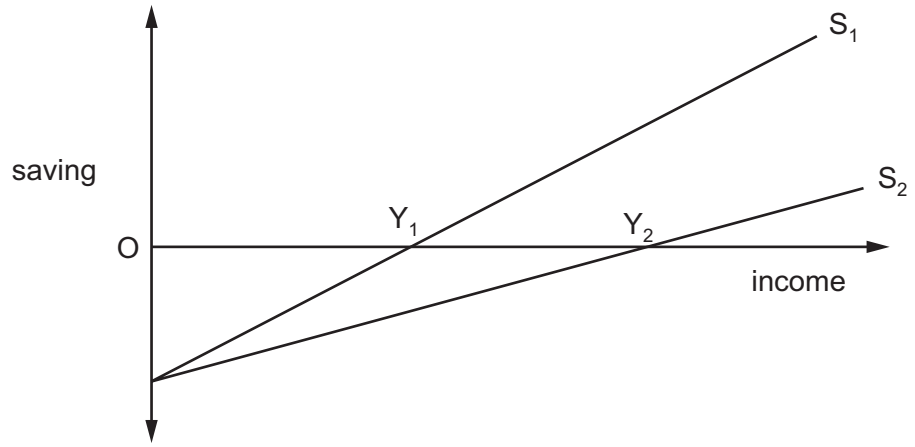
	year 1 ($m)	year 2 ($m)	year 3 ($m)
GNP at market prices	420	440	560
private consumption	200	260	300
government consumption	120	120	140
gross investment	90	80	130

In which of these years will the country be faced with a deficit on the current account of the balance of payments?

	year 1	year 2	year 3
A	no	yes	yes
B	no	yes	no
C	yes	no	yes
D	yes	no	no

© UCLES 2014

20 The diagram shows a shift in the economy's saving function from S_1 to S_2.



What can be deduced from the diagram?

A Autonomous consumption has increased.

B Equilibrium national income has increased from OY_1 to OY_2.

C The marginal propensity to save has increased.

D The multiplier has increased.

21 A country's government has a fiscal deficit of $200 billion which it finances by borrowing from the central bank.

In the absence of offsetting factors, what will happen to aggregate expenditure and to the money supply if the government reduces the size of its deficit to $120 billion by cutting public spending?

	aggregate expenditure	money supply
A	decrease	decrease
B	increase	decrease
C	decrease	increase
D	increase	increase

22 According to Keynesian theory, in which circumstance will there always be an increase in the demand for money?

	real income	price level	interest rates
A	constant	decrease	increase
B	constant	increase	decrease
C	increase	decrease	decrease
D	increase	increase	increase

© UCLES 2014

23 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

24 What is most likely to cause a decrease in a country's long-run rate of economic growth?

A an ageing population

B increased inward migration

C a decrease in the government's budget deficit

D a decrease in the share of agriculture in the country's GDP

25 The graph shows the annual percentage changes in the prices of new houses and existing houses in the United Kingdom between 2010 and 2012.



What can be concluded from the graph?

A From October 2010 new houses on average were more expensive than existing houses.

B The average price of new houses peaked in October 2011.

C The average price of existing houses was lower in May 2011 than in May 2010.

D The average price of existing houses fell to their lowest level in May 2011.

© UCLES 2014

26 The Human Development Index (HDI) measures three dimensions of human development.

What is **not** included as one of these dimensions?

A access to knowledge

B a decent standard of living

C a long and healthy life

D equal economic opportunity

27 What is the opportunity cost to society of an increase in unemployment?

A the increase in taxes to pay for unemployment benefits

B the loss in national output

C the reduction in the disposable income of those who lose their jobs

D the resulting increase in the government's fiscal deficit

28 Which policy to correct a balance of payments deficit would be classified as an expenditure dampening policy?

A a devaluation of the exchange rate

B an increase in direct taxes

C an increase in import tariffs

D the introduction of import quotas

29 An economy with unemployed resources experiences an increase in government expenditure financed by borrowing from the non-bank private sector.

What would diminish the resulting increase in GDP?

A an expansion of the money supply

B an increase in private investment

C a reduction in the marginal propensity to save

D a rise in the level of interest rates

30 What would be an economic benefit to a major trading economy of imposing a tariff on imported goods?

A It would increase labour productivity.

B It would increase pressure on foreign suppliers to reduce their prices.

C It would make the country's exports more competitive.

D It would reduce the prices paid by consumers for imported goods.

© UCLES 2014

BLANK PAGE

BLANK PAGE

BLANK PAGE

Copyright Acknowledgements:

Question 11 © http://www.comScore.com/.
Question 25 © Crown Copyright; http://www.statistics.gov.uk.

Permission to reproduce items where third-party owned material protected by copyright is included has been sought and cleared where possible. Every reasonable effort has been made by the publisher (UCLES) to trace copyright holders, but if any items requiring clearance have unwittingly been included, the publisher will be pleased to make amends at the earliest possible opportunity.

Cambridge International Examinations is part of the Cambridge Assessment Group. Cambridge Assessment is the brand name of University of Cambridge Local Examinations Syndicate (UCLES), which is itself a department of the University of Cambridge.