Cambridge International A Level

Cambridge International Examinations
Cambridge International Advanced Level

ECONOMICS **9708/31**

Paper 3 Multiple Choice (Supplement) **October/November 2015**

1 hour

Additional Materials: Multiple Choice Answer Sheet
Soft clean eraser
Soft pencil (type B or HB is recommended)

3221641402

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 An economy is said to be economically inefficient if

A it is possible to make some people better off without making other people worse off.

B the distribution of income is socially unacceptable.

C the government sector is growing at the expense of the private sector.

D wage rates rise faster than production.

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

quantity of good (units)	total utility (units)
1	20
2	36
3	50
4	62
5	72
6	80

The individual's marginal utility of money is $1 = 3 units of utility.

What is the maximum quantity of the good that the individual will buy when its price is $4?

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

3 Which statement explains why labour is subject to the law of diminishing returns in the short run?

A As additional workers are hired, total output decreases.

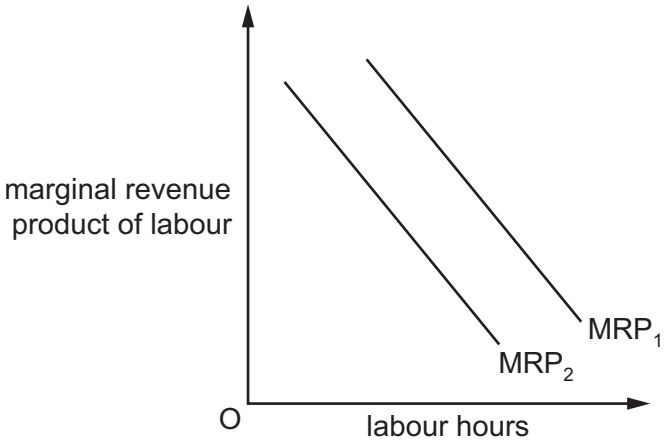
B As employment increases, the capital-labour ratio falls.

C As employment increases, wage rates will have to be increased.

D As output increases, eventually diseconomies of scale will occur.

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4 The diagram shows a firm's initial marginal revenue product of labour curve (MRP_1).



What could cause the curve to shift to MRP_2?

A an increase in labour productivity

B an increase in the wage rate

C a reduction in labour hours

D a reduction in the price of the firm's product

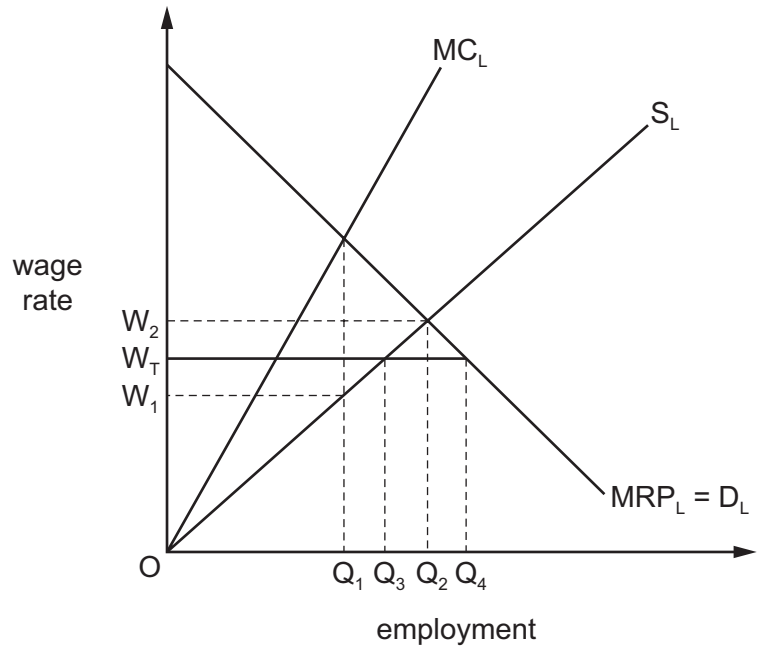
5 A worker decides to work fewer hours when there is a rise in her real wage.

How is this explained by income and substitution effects?

	income effect	substitution effect	balance of effects
A	negative	positive	income effect outweighs substitution effect
B	negative	positive	substitution effect outweighs income effect
C	positive	negative	substitution effect outweighs income effect
D	positive	positive	income effect outweighs substitution effect

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6 The diagram shows what happens when the employees of a profit maximising monopsonist employer form a trade union and successfully negotiate a wage rate of OW_T.



What is the effect of the new wage rate on employment?

A It falls from OQ_2 to OQ_1.

B It falls from OQ_2 to OQ_3.

C It rises from OQ_1 to OQ_3.

D It rises from OQ_1 to OQ_4.

7 The schedule shows the short-run marginal cost of producing good X.

units of X	1	2	3	4	5
marginal cost ($)	50	40	20	20	60

Given that the total fixed cost is $10, what level of output minimises average total cost?

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

8 What is most likely to explain why both large and small firms are often found within the same industry?

A All firms in the industry produce identical products.

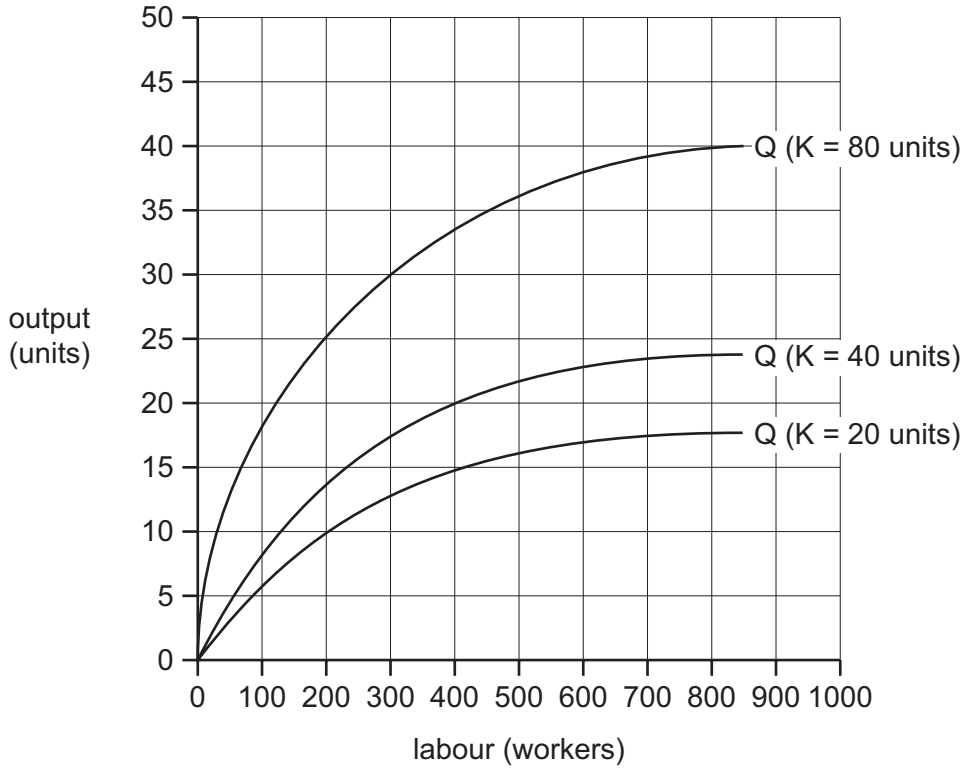
B Firms that assemble the final product buy components from specialist firms within the industry.

C Production within the industry is subject to diseconomies of scale.

D There are significant barriers to the entry of new firms into the industry.

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9 The diagram shows how a firm's output (Q) changes in response to changes in the number of workers it employs and the number of units of capital (K) it hires.



Initially, the firm hires 20 units of capital and employs 200 workers.

Assuming factor prices remain constant, what is the shape of the firm's long-run average cost curve?

A downward-sloping

B horizontal

C upward-sloping

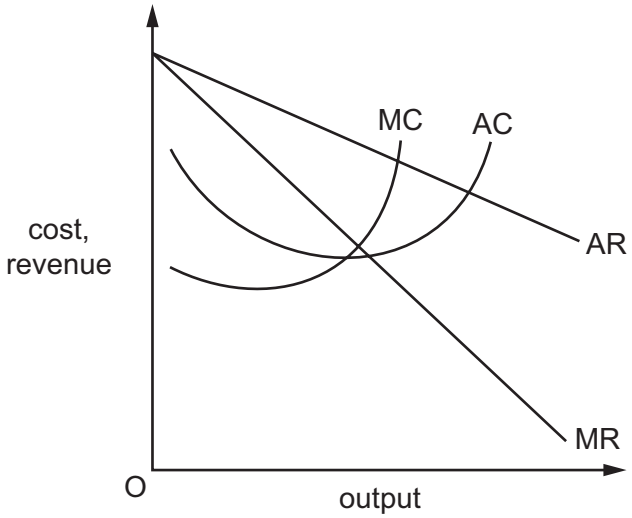
D U-shaped

10 A firm takes over one of its main competitors.

What is likely to happen to the price elasticity of demand for the firm's product and what will be the impact of the takeover on its average cost of production?

	price elasticity of demand	average cost
A	decreases	increases
B	decreases	uncertain
C	increases	increases
D	increases	uncertain

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



The firm currently aims to maximise its sales volume subject to earning a normal profit.

What will be the effect on price and output if it changes its objective to revenue maximisation while retaining the same minimum profit constraint?

	effect on price	effect on output
A	increase	no change
B	increase	reduce
C	no change	no change
D	no change	reduce

12 In the UK, four bus companies control more than two-thirds of the market.

Critics claim that the big four agree to fix prices on some routes to maximise revenue whilst temporarily lowering prices on other routes to drive out smaller competitors.

Which anti-competitive practices are the big four bus companies accused of?

A collusion and limit pricing

B collusion and predatory pricing

C limit pricing and price discrimination

D price discrimination and predatory pricing

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13 What will increase the likelihood that the firms in an industry will collude to maximise their joint profits?

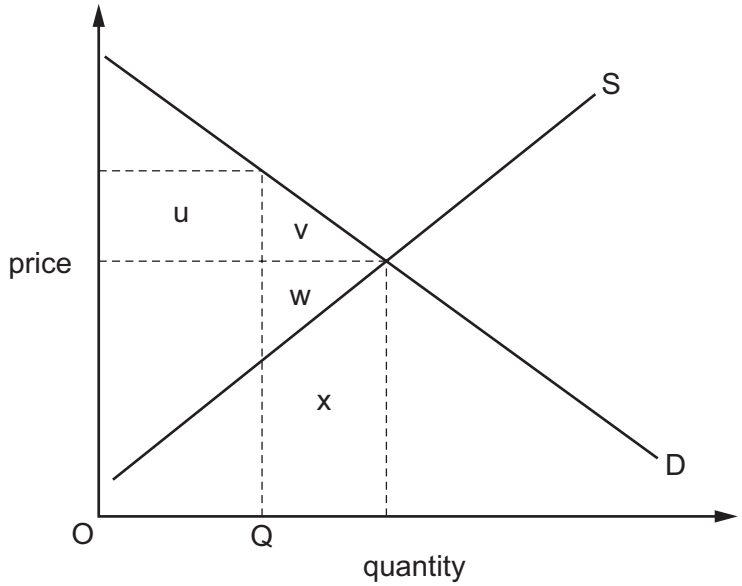
A The industry consists of a large number of producers.

B The industry has many differentiated products.

C The industry is characterised by rapid technological change.

D There are significant barriers to prevent new firms entering the industry.

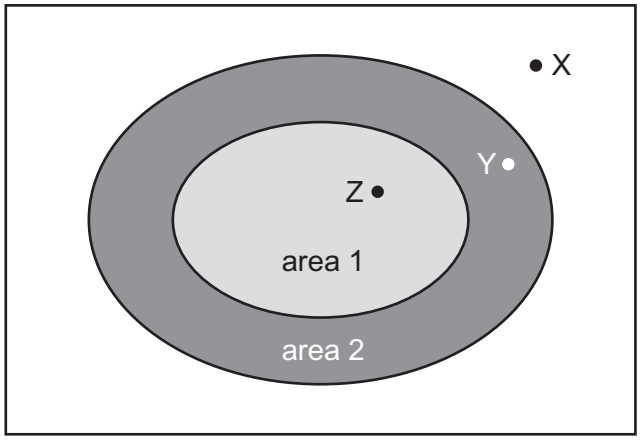
14 The diagram shows an industry's supply and demand curves.



In the absence of externalities, which area in the diagram measures the net loss in economic welfare if the government restricts the level of output to OQ?

A u + v **B** v + w **C** x **D** v + w + x

15 At present, motorists who drive their cars within area 1 on the map pay a daily congestion charge of $8. However, motorists who live within the congestion charge zone are eligible for a 90% discount.



Which car journeys would decrease in number if the congestion zone area were extended to include area 2?

A journeys from point X to point Z

B journeys from point Y to point X

C journeys from point Y to point Z

D journeys from point Z to point Y

16 A government requires all its young citizens to undertake community service for a period of 6 months. The wages paid to those on the community service are below what they would otherwise have earned.

What effect will this have on recorded GDP and on national welfare?

	effect on GDP	effect on national welfare
A	reduction	increase
B	reduction	uncertain
C	unchanged	increase
D	unchanged	uncertain

17 What must result from a rise in the supply of money, if the income velocity of circulation remains unchanged?

A a fall in unemployment

B a rise in the volume of output

C a rise in the general level of prices

D a rise in the money value of national income

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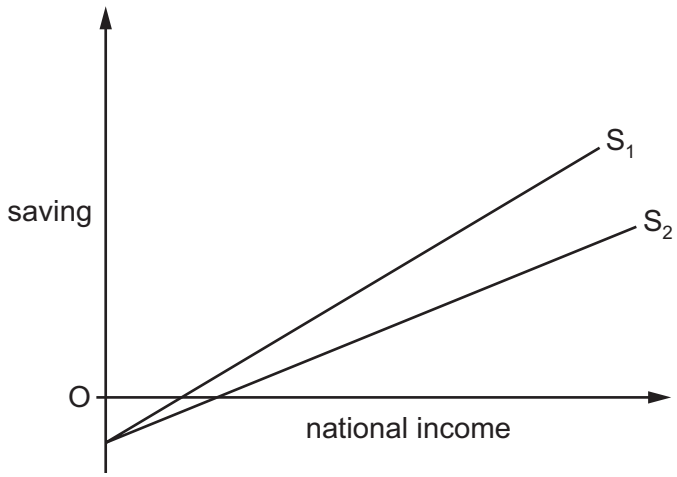
18 The table shows data on a country's gross domestic product (GDP) at market prices and on domestic spending.

	year 1 ($million)	year 2 ($million)	year 3 ($million)
GDP at market prices	630	650	680
private consumption	460	470	480
government consumption	140	160	170
gross investment	20	30	50

In which of these years will the country be faced with a balance of trade deficit?

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

19 In the diagram, S_1 is an economy's initial saving function.



If the saving function shifts to S_2, what effect will this have on the marginal propensity to consume and on the multiplier?

	marginal propensity to consume	multiplier
A	decreases	decreases
B	decreases	increases
C	increases	decreases
D	increases	increases

20 In an economy, the volume of output rises by 2% in a year, while the quantity of money rises by 5%.

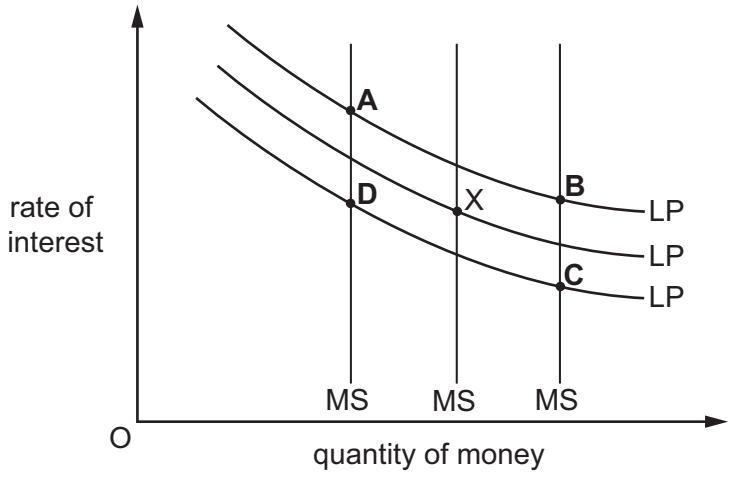
If the velocity of circulation of money remains the same, what will be the approximate increases in the price level and the money value of national income?

	increase in price level	increase in money value of national income
A	2%	5%
B	2%	7%
C	3%	5%
D	3%	7%

21 The diagram shows three different levels of money supply (MS) and three different demand curves for holding money balances (LP). The initial equilibrium is at point X.

There is a reduction in bank lending and people decide to hold more money as a precaution against emergencies.

What could be the new equilibrium point?



22 Cuba, a developing country, achieves health and education standards as high as those found in leading developed countries. Yet, in 2005, its Human Development Index (HDI) value placed it 51st out of 177 countries surveyed.

What might have explained its HDI value?

A Cuba has a relatively high level of absolute poverty.

B Cuba has a relatively large population.

C Cuba has a relatively low GDP per head.

D Cuba has relatively few people with access to safe water.

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23 Which characteristics are most commonly found in developing countries?

	saving ratio	capital-output ratio
A	low	low
B	high	low
C	low	high
D	high	high

24 Between 2012 and 2014 a country's national output fell by 2%.

Over the same period its unemployment rate decreased from 6% to 4%.

What could explain this?

A There was a decrease in labour productivity.

B There was a fall in the rate of inflation.

C There was an increase in the long-term potential rate of growth.

D There was an increase in the size of the labour force.

25 The table shows government revenue and expenditure of four countries as a % of GDP in 2000 and 2010.

Which country moved from a budget deficit position in 2000 to a budget surplus in 2010?

		revenue (% of GDP)		expenditure (% of GDP)	
		2000	2010	2000	2010
A	France	50.2	49.5	51.7	56.6
B	Norway	57.7	56.7	42.3	45.5
C	Sweden	58.7	52.4	55.1	52.5
D	Switzerland	35.2	34.0	35.6	33.8

26 In an economy operating below full employment, which combination of changes will definitely result in an increase in national income?

A a fall in the rate of taxation together with a rise in the saving rate

B a rise in government expenditure together with a fall in the propensity to import

C a rise in investment expenditure together with a rise in the rate of taxation

D a rise in the propensity to save together with a rise in exports

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27 Which tax is most likely to be regressive?

A an inheritance tax

B a property tax

C a sales tax

D income tax

28 Which policy by developed economies would be most beneficial for developing economies?

A a ban on resource exploration by mining companies in developing economies

B restrictions on investment by global firms in developing economies

C the abolition of restrictions on immigration of skilled labour from developing economies

D the withdrawal of agricultural subsidies in developed economies

29 Some European countries experienced a decline in investment spending in 2011-2012.

What might a government do to stop such a decline?

A increase quotas on imports

B lower interest rates

C raise income tax

D set up training courses

30 The government decides to raise the rate of Value Added Tax (General Sales Tax).

What does this suggest is the government's main macroeconomic objective?

A to reduce the budget deficit

B to reduce the inequality of income distribution

C to reduce the level of unemployment

D to reduce the rate of inflation

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