Cambridge International A Level

Cambridge International Examinations
Cambridge International Advanced Level

ECONOMICS **9708/32**

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)

0717604385

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.

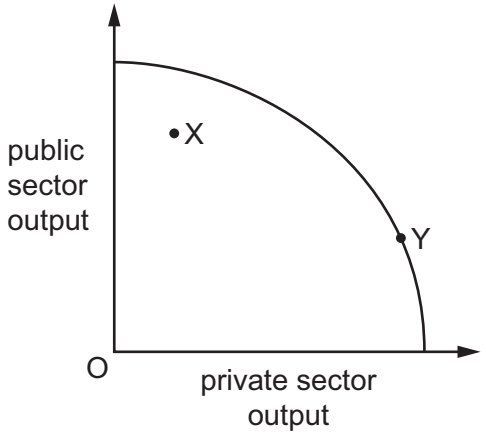
Each correct answer will score one mark. A mark will not be deducted for a wrong answer.
Any rough working should be done in this booklet.

This document consists of **13** printed pages and **3** blank pages.

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1 The diagram shows the production possibility curve for a successful transition economy that moves from point X to point Y over time.

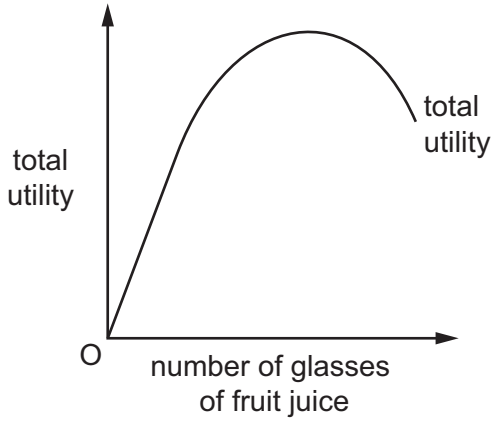


During the transition process the population of the country expressed a strong preference for increased privatisation.

What happens to economic efficiency as a result of the transition from point X to point Y?

	productive efficiency	allocative efficiency
A	increases	decreases
B	increases	increases
C	unchanged	decreases
D	unchanged	unchanged

2 The diagram shows an individual's total utility from consuming glasses of fruit juice.



How can this information help to derive the individual's demand curve for fruit juice?

A by revealing the individual's marginal utility curve

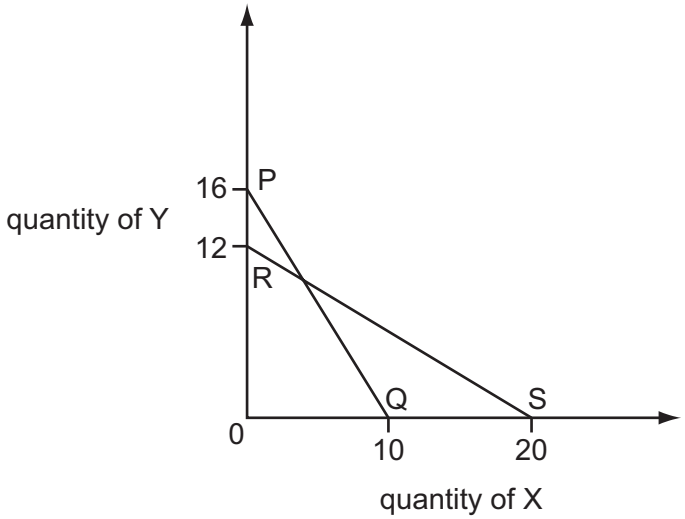
B by revealing the money value of marginal utility

C by showing how total utility is maximised

D by showing the relationship between utility and expenditure

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3 In the diagram, PQ is a consumer's original budget line.



The consumer's income increases from $80 to $120 and, at the same time, the prices of X and Y change.

If the consumer's budget line is now RS, what are the new prices of X and Y?

	price of X ($)	price of Y ($)
A	4	12
B	6	10
C	10	8
D	12	6

4 What will result from the differences in the non-pecuniary advantages of various occupations?

A disequilibrium in the labour market

B long-term differentials in wage rates

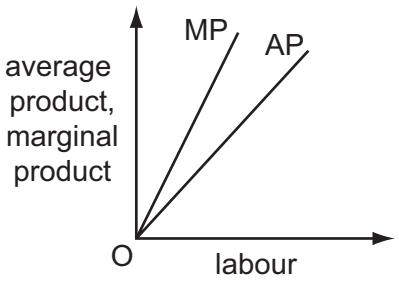
C monopsony in particular labour markets

D shortages of labour in particular occupations

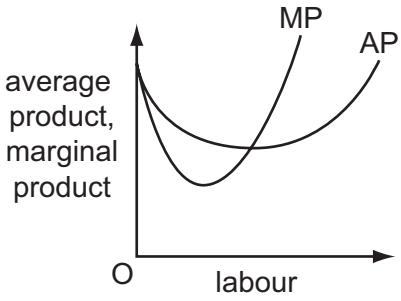
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5 Which diagram correctly shows the relationship between the average product (AP) and the marginal product (MP) of labour, given that the quantities of other factor inputs remain constant?

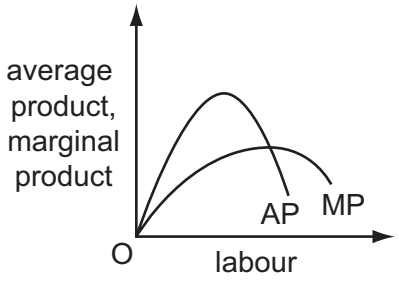
A



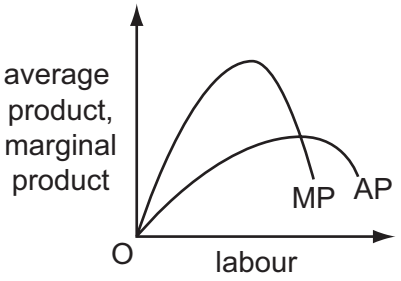
B



C



D



6 A firm currently pays its employees on an hourly basis.

Even though the management acknowledges that its employees work to the best of their ability and could not work any harder, the firm decides to switch to a piece-rate system of remuneration whereby the wage paid to each employee depends on their level of output.

Why might this new system of remuneration result in a significant improvement in labour productivity?

A It will dispense with the need for management to monitor the actions of its employees.

B It will increase the losses that workers will incur if they are dismissed for not working hard enough.

C It will lead to the recruitment and retention of more highly talented workers.

D It will strengthen the incentives for workers to increase their earnings.

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7 A fashion model is paid $500 000 a year.

If the next best paid job he could get is as a teacher at $100 000 a year, what are his transfer earnings and his economic rent?

	transfer earnings $	economic rent $
A	zero	400 000
B	100 000	400 000
C	400 000	zero
D	400 000	100 000

8 A fourfold increase in all of a firm's inputs results in a threefold increase in its output.

What does this illustrate?

A decreasing returns to scale

B economies of scale

C the law of diminishing returns

D the law of variable proportions

9 A firm employs two factors of production. The table shows the marginal products of these factors and their respective costs at the current level of output.

	land	labour
marginal product (units)	1	5
marginal cost per unit of factor ($)	4	3

Which adjustment in factor use would be most likely to bring the firm nearer to the least-cost combination of inputs for its current output level?

	land	labour
A	less	less
B	less	more
C	more	less
D	more	more

10 Firms can grow either externally or internally.

What represents internal growth?

	finding new export markets	merging with rival firms in the same industry	merging with firms in other industries
A	no	no	yes
B	no	yes	no
C	yes	no	no
D	yes	yes	yes

11 A firm, operating in an imperfectly competitive market, produces at the level of output where the price elasticity of demand for its product is equal to unity.

What has the firm achieved?

A normal profit

B maximum profits

C maximum revenue

D maximum sales volume

12 The table shows the five-firm concentration ratios for a selection of industries in an economy.

industry	percentage of total sales accounted for by the five largest firms in the industry (%)
tobacco	95
steel	60
water supply	60
printing	12

What can be concluded from the table?

A The firms are of equal size in the steel industry and the water supply industry.

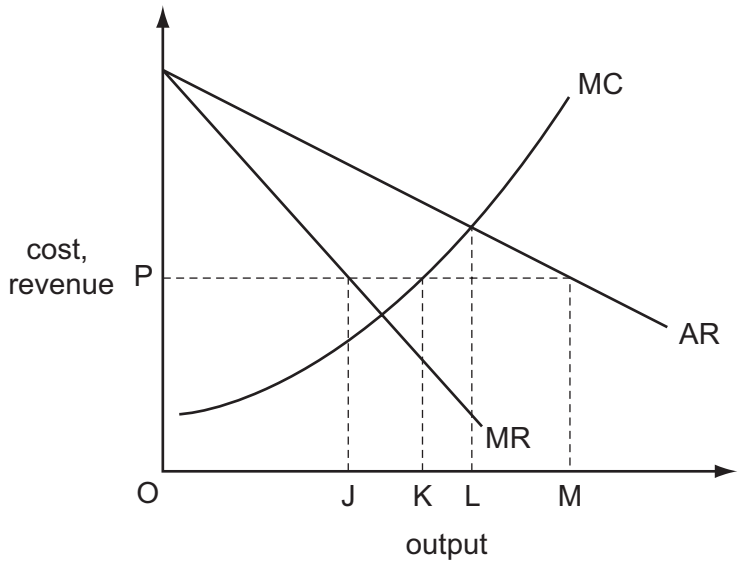
B The printing industry is more competitive than the tobacco industry.

C The tobacco industry is a monopoly market.

D There are more firms in the tobacco industry than in the water supply industry.

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13 The diagram shows the initial cost and revenue curves of a profit-maximising monopolist.



What output will the firm produce if the government fixes the price at OP?

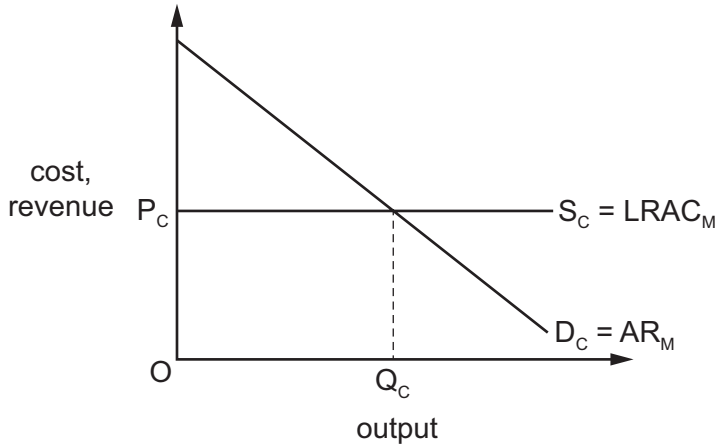
A OJ **B** OK **C** OL **D** OM

14 Instead of charging all of its customers the same price, a firm decides to charge different prices in different markets.

How is this likely to affect consumer surplus and the firm's marketing costs?

	consumer surplus	marketing costs
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

15 The diagram shows the demand curve, D_C, and supply curve, S_C, of a perfectly competitive industry.



The industry is taken over by a monopolist. The monopolist's long-run average cost curve, $LRAC_M$, is identical to the supply curve of the perfectly competitive industry.

What will be the effects of the takeover on profit and allocative efficiency?

	profit	allocative efficiency
A	decreases	decreases
B	decreases	increases
C	increases	decreases
D	increases	increases

16 Which government microeconomic policy is **not** usually aimed at correcting allocative inefficiency in an economy?

A anti-monopoly legislation

B congestion charges for the use of roads in cities

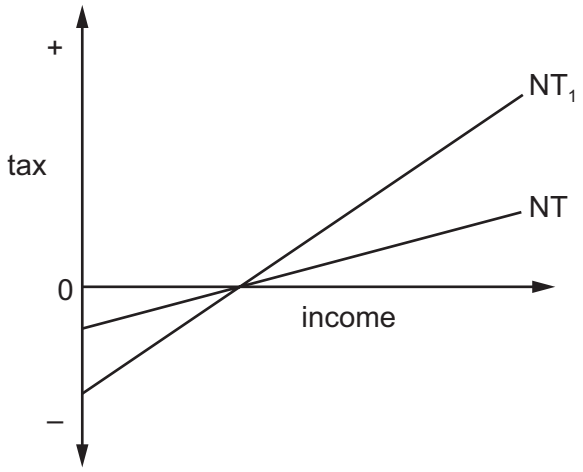
C pollution taxes imposed on various firms

D subsidies for agricultural producers

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17 A country has a negative income tax.

In the diagram, the curve NT shows the country's initial tax schedule.



What could cause the tax schedule to shift to NT_1?

A a higher marginal tax rate

B a more equal distribution of income

C an increase in household disposable income

D an increase in the marginal propensity to consume

18 The information in the table is taken from a country's national income accounts.

	$ million
national income	600
consumer spending	400
investment spending	80
government spending on goods and services	100
exports	140

What is the value of imports?

A $100 million **B** $120 million **C** $140 million **D** $240 million

19 Which represents an injection into a country's circular flow of income?

A corporate taxes

B interest payments on government bonds

C the payment of dividends to foreign shareholders

D the repayment of bank loans

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20 Over one year the money income in an economy increased by 6%. In the same period prices rose by 4%.

What can be concluded from this?

A Real incomes decreased by 2%.

B The velocity of circulation decreased by 2%.

C The money supply increased by 10%.

D The volume of output increased by 2%.

21 What is likely to be the effect on interest rates and the supply of money of a purchase of government securities by a central bank?

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

22 The table shows the figures for consumption, capital formation and depreciation in four economies, all measured in US $.

Assuming that the state of technology remains unchanged, which economy is most likely to experience economic growth?

economy	consumption ($ million)	capital formation ($ million)	capital depreciation ($ million)
A	100	10	20
B	500	200	100
C	1 000	1 200	1 400
D	20 000	5 000	6 000

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23 Gross Domestic Product (GDP) per head is an indicator sometimes used to compare living standards of various countries. GDP is converted into a common currency at market exchange rates.

What might cause this indicator to **exaggerate** the relative position of an individual country?

A a high level of female participation in the labour force

B a high level of foreign ownership in domestic industry

C a high level of subsistence farming

D relatively low hours worked by the labour force

24 In the absence of offsetting changes, what will result in an increase in a government's fiscal deficit?

A a decrease in household saving

B a decrease in interest rates on government bonds

C a decrease in private sector investment

D a decrease in the country's trade deficit

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

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

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

26 What are likely to be the impacts on an economy of increased competition from abroad?

	impact on trade balance	impact on rate of inflation	impact on unemployment rate
A	improve	raise	decrease
B	improve	reduce	decrease
C	worsen	raise	increase
D	worsen	reduce	increase

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27 An economy has underemployed resources.

Which method of financing an increase in government expenditure is likely to have the greatest expansionary effect?

A borrowing from the central bank

B borrowing from the non-bank private sector

C increased direct taxation

D increased indirect taxation

28 The table shows how the government finances its budget deficit in a closed economy.

	$
budget deficit	200 billion
sale of government securities to the central bank	50 billion
sale of government securities to the non-bank private sector	150 billion

If there is no change in notes and coins in circulation and commercial banks maintain a 10% cash reserve ratio, what will be the resulting increase in the money supply?

A $50 billion

B $150 billion

C $200 billion

D $500 billion

29 What is likely to be the effect on developing economies of an increase in inward foreign direct investment?

A an acceleration of technology transfer

B an increase in the burden of debt

C an increase in visible trade deficits

D a slowdown of rural-urban migration

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30 Economists have proposed that the best policy to promote development is 'trade not aid'.

What is implied by this proposal?

A Developing countries should become self-sufficient.

B Developing countries should be given greater access to markets in developed countries.

C Developing countries should use foreign aid to invest in their export industries.

D Developing countries should use trade barriers to promote import substitution.

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