UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Advanced Level

ECONOMICS **9708/32**

Paper 3 Multiple Choice (Supplement) **October/November 2009**

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, highlighters, 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.

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 **12** printed pages.

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1 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	8
total utility (units)	28	40	50	58	64	68	71	73

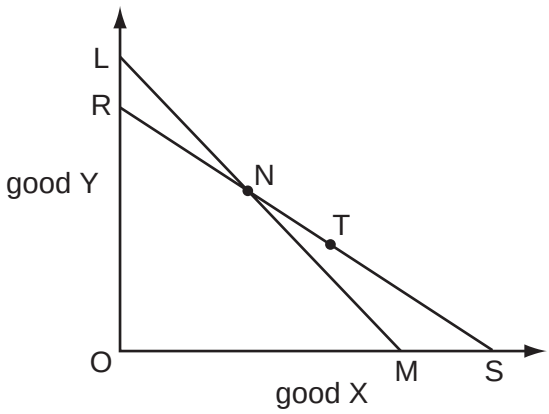
The consumer obtains two units of satisfaction from the last cent she spends on each good that she purchases.

What is the maximum number of units of X that she will consume if the price of X is 6 cents?

A 2 **B** 5 **C** 7 **D** 8

2 In the diagram, an individual initially chooses combination N on budget line LM.

An increase in his money income accompanied by an increase in the price of good Y causes his budget line to shift to RS, and he now chooses combination T.



How does this affect his economic welfare?

A He is definitely better off because his money income has increased.

B He is definitely worse off because he has to pay more for good Y.

C He is better off since combination T, which he now chooses, was not previously available to him.

D He is worse off since combinations of X and Y along LN are no longer available to him.

3 Which statement describes a situation in which a rise in input of factor X, all other factors being constant, results in no change in a firm's output?

A There are diminishing returns to factor X.

B Returns to scale are constant.

C There are diseconomies of scale.

D The marginal product of X is zero.

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4 What could cause a perfectly competitive firm's marginal revenue product of labour curve to shift to the right?

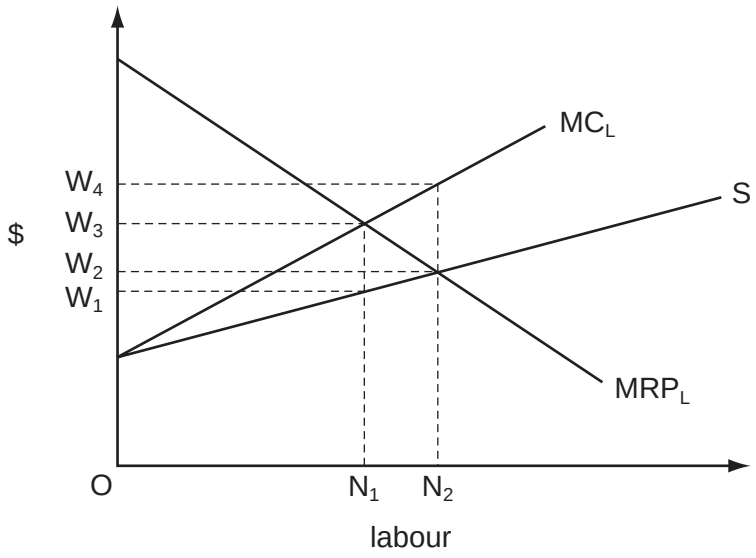
A an increase in wages

B a higher rate of sales tax

C an increase in labour supply

D a rise in the price of the final product

5 In the diagram, MRP_L is a firm's marginal revenue product of labour curve, S is its supply of labour curve, and MC_L its marginal cost of labour curve.



Assuming profit maximisation, how many workers will the firm employ and what wage will it pay?

	number employed	wage
A	N_1	W_3
B	N_1	W_1
C	N_2	W_2
D	N_2	W_4

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

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

B the tendency for wage rates negotiated by trade unions to exceed those for non-unionised labour

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

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

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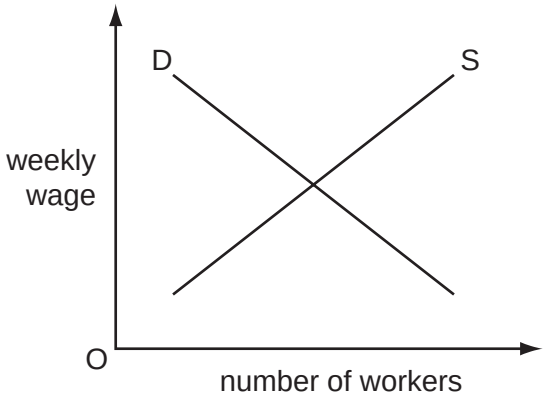
7 The diagram shows the initial position of a labour market.



The government introduces a law reducing the statutory working week from 39 hours to 36 hours.

How will this affect the supply and demand curves in the diagram?

	employers' demand curve	workers' supply curve
A	shifts to right	shifts to left
B	shifts to right	shifts to right
C	shifts to left	shifts to left
D	shifts to left	shifts to right

8 The table shows the inputs of the two factors of production, capital and labour, needed to produce varying levels of output.

output	capital	labour
100	5	10
200	8	16
300	14	28
400	20	40
500	26	52

Over which output range do increasing returns to scale occur?

A 100 to 200 **B** 200 to 300 **C** 300 to 400 **D** 400 to 500

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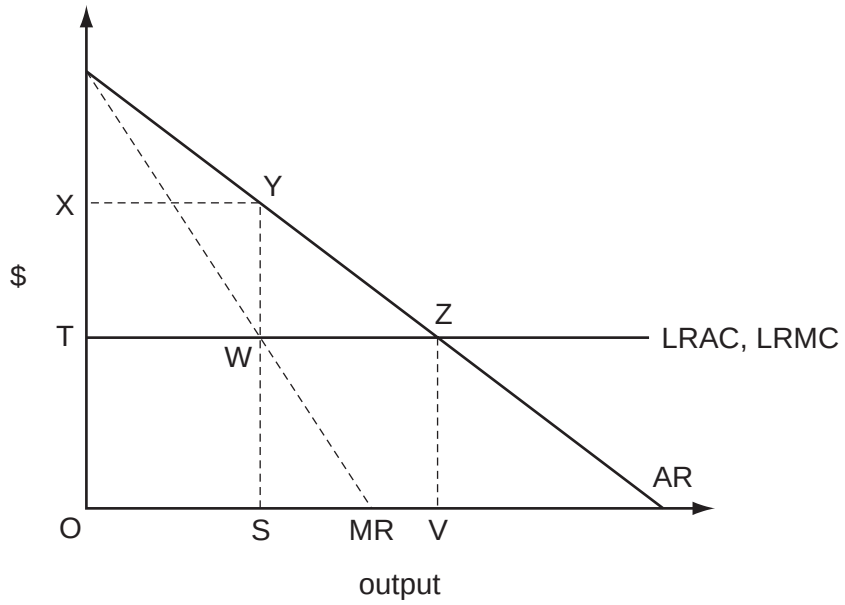
9 The diagram shows an industry producing under conditions of constant average costs.



Under perfect competition, the industry produces output OV.

Which area measures the loss in consumer surplus if it were to become a monopoly?

A YWZ **B** XYWT **C** XYZT **D** SYZV

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 increases its price by 5%?

A Its revenue will be unchanged.

B Its revenue will increase by 5%.

C Its revenue will decrease by 5%.

D Its revenue will fall to zero.

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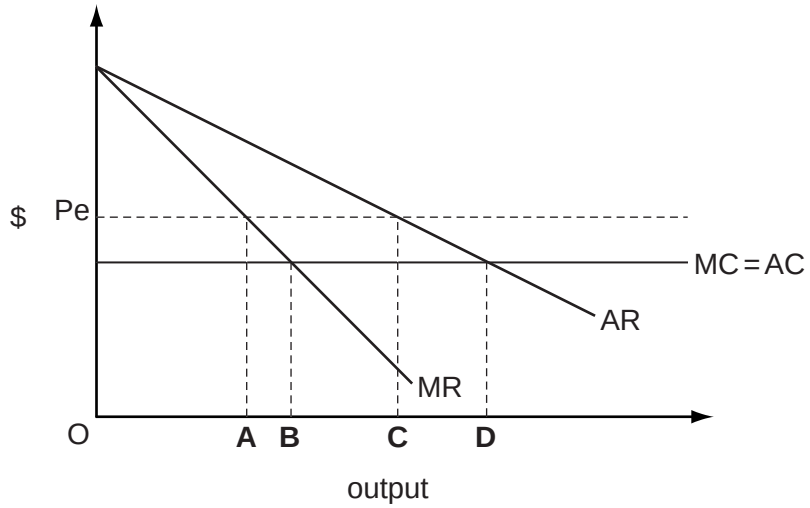
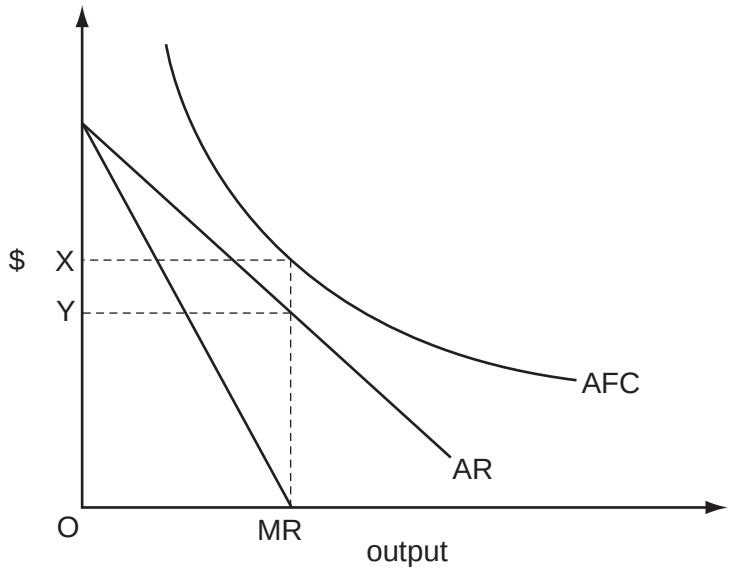
11 The diagram shows the short-run position of a monopolist who believes that, in the long run, excessive profits might attract new entrants to the industry.

If the monopolist believes that at prices above Pe new competitors would enter, which output would he choose to protect his long-run profits?



12 The diagram shows the cost and revenue curves of a monopoly producer whose only cost of production is a fixed cost.



What will such a monopolist do?

A set a price of OX in the short run and the long run

B set a price of OY in the short run and the long run

C set a price of OX in the short run, but discontinue production in the long run

D set a price of OY in the short run, but discontinue production in the long run

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13 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

14 What could prevent a market economy achieving allocative efficiency?

A disagreement among consumers over resource allocation

B inequalities in the distribution of income and wealth

C an inability to produce free goods

D an inability to produce public goods

15 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
taxation	90
imports	120

What is the value of exports?

A $100 million **B** $120 million **C** $140 million **D** $230 million

16 Assuming a constant income velocity of circulation of money, if the rate of growth of the money supply is 8 % and the average price level increases by 5 %, what will be the approximate change in real output?

A –3 % **B** +3 % **C** +8 % **D** +13 %

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17 According to monetarist theory, what will be the short-run effect of an unexpected increase in the money supply?

A an appreciation of the foreign exchange rate

B an increase in employment

C an increase in real wages

D an increase in the rate of interest

18 The table gives the national income of a country over six years.

year	national income (Y)
1	2100
2	2110
3	2125
4	2145
5	2160
6	2170

According to the accelerator principle, in which year did net investment first fall to a level below that of the previous year?

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

19 Out of any addition to national income, 20 % is spent on imports, 15 % is paid in taxes, 5 % is saved and the rest is spent on domestically-produced goods.

What is the value of the multiplier?

A 2.5 **B** 5 **C** 6 **D** 20

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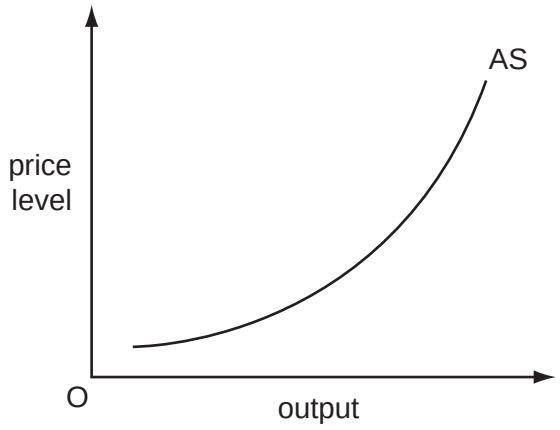
20 The diagram shows a number of expenditure functions. The original expenditure function is shown by E.

The government announces a decrease in government expenditure on goods and services and reduces the standard rate of income tax.

Which line shows the new expenditure function resulting from these changes?

A E_1 **B** E_2 **C** E_3 **D** E_4

21 The diagram shows an economy's aggregate supply curve.



What is likely to cause the curve to shift to the left?

A improvements in technology

B schemes to increase the geographical mobility of labour

C an increase in investment due to a reduction in interest rates

D an increase in the marginal rate of income tax

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22 The government sells $1 million of bonds to the commercial banks. It uses the proceeds from the sale to provide subsidies to sugar producers who pay them into their bank accounts.

Assuming that notes and coins in circulation remain unchanged, what will be the immediate effect on the assets and liabilities of the commercial banks?

	assets	liabilities
A	bonds +$1 million reserves –$1 million	unchanged
B	bonds +$1 million	deposits +$1 million
C	reserves –$1 million	deposits –$1 million
D	unchanged	unchanged

23 According to loanable funds theory, what will cause the rate of interest to rise?

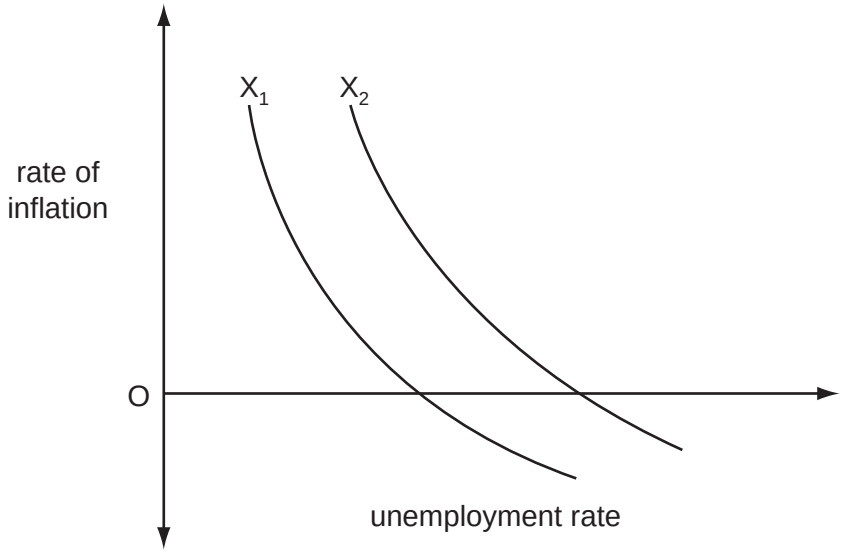
A an increase in the rate of investment

B an increase in liquidity preference

C an increase in the level of savings

D an increase in the supply of money

24 In the diagram, the curve X_1 shows an economy's initial trade-off between inflation and unemployment.



What could cause the curve to shift to X_2?

A an increase in the natural rate of unemployment

B a decrease in the money supply

C the expectation of a decrease in the inflation rate

D an increase in the rate of interest

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25 An economy's GDP per capita grows over a certain period of time, but its development when measured by the Human Development Index remains unchanged.

What could explain the difference?

A longer working hours

B increased pollution

C an increased crime rate

D a decline in life expectancy

26 What is most likely to be the impact on economic growth and on the rate of inflation in developed economies of an inflow of migrant labour from developing economies?

	impact on economic growth	impact on rate of inflation
A	increase	increase
B	increase	decrease
C	decrease	increase
D	decrease	decrease

27 An economy has unemployed resources and a flexible exchange rate. It lowers interest rates below the level prevailing in other countries.

What will be the likely effect on the level of domestic demand for goods and services and on the demand for the country's exports?

	domestic demand	export demand
A	increase	increase
B	increase	decrease
C	decrease	decrease
D	decrease	increase

28 Which policy is **most** likely to help to correct an adverse balance on the current account of the balance of payments?

A abolishing tariffs

B devaluing the currency

C reducing direct taxes

D reducing indirect taxes

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

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

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

30 An economy is operating at a point on its production possibility curve.

What is true about the way the economy's resources are being used at this point?

	allocatively efficient	productively efficient	socially desirable
A	possibly	yes	yes
B	yes	possibly	possibly
C	possibly	yes	possibly
D	yes	possibly	yes

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