Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/31**

Paper 3 A Level Multiple Choice **May/June 2025**

1 hour 15 minutes

You must answer on the multiple choice answer sheet.

You will need: Multiple choice answer sheet
Soft clean eraser
Soft pencil (type B or HB is recommended)

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INSTRUCTIONS

- 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 multiple choice answer sheet.
- Follow the instructions on the multiple choice answer sheet.
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- Do **not** use correction fluid.
- Do **not** write on any bar codes.
- You may use a calculator.

INFORMATION

- The total mark for this paper is 30.
- Each correct answer will score one mark.
- Any rough working should be done on this question paper.

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1 What is the equi-marginal principle?

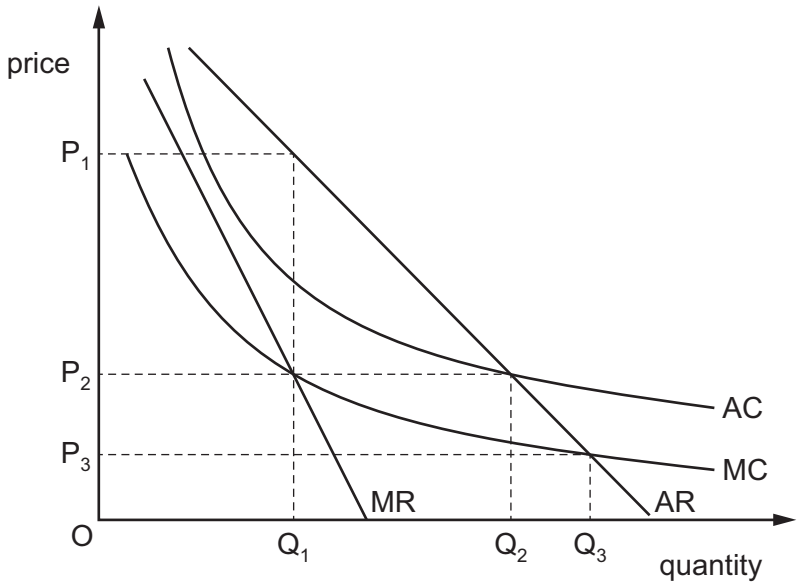
A As consumption of a product increases, the satisfaction from consumption of the product decreases by an equal amount.

B Consumers maximise utility where their marginal valuation for each product consumed is the same.

C The total satisfaction received by consumers from consumption of a product is constant.

D The marginal utility derived by consumers from the consumption of one more unit of a product is constant.

2 The diagram shows the cost and revenue curves for a natural monopoly.



Which statement is correct?

A P_2 and Q_2 will achieve both allocative efficiency and productive efficiency.

B P_2 and Q_1 will achieve productive efficiency but not allocative efficiency.

C P_3 and Q_3 will achieve allocative efficiency but not productive efficiency.

D P_3 and Q_3 will achieve both allocative efficiency and productive efficiency.

3 What would **not** affect the budget line of an individual consumer?

A the individual's preference for various goods

B the level of income tax

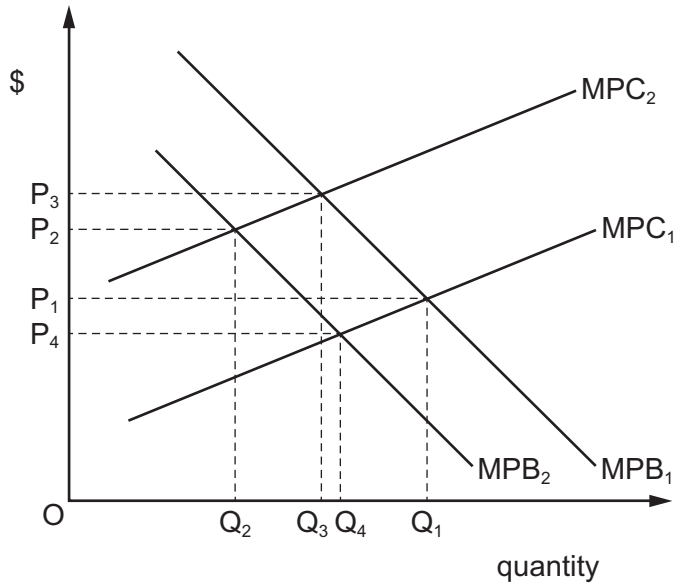
C the money prices of goods

D the incomes earned by the individual

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4 The diagram shows the marginal private costs (MPC) and marginal private benefits (MPB) of a product. Consumers initially estimate that marginal private costs are at MPC_1 and marginal private benefits are at MPB_1.



What is the impact on the market demand for the product if the consumer realises they have underestimated the MPC of buying the product but **not** the MPB?

A The consumer underconsumes the product by Q_1Q_2.

B The consumer underconsumes the product by Q_1Q_3.

C The consumer overconsumes the product by Q_1Q_3.

D The consumer overconsumes the product by Q_1Q_4.

5 What is an internal economy of scale?

A efficient local transport networks

B improved access to spare parts as a result of industry growth

C lower risks from supplying a wider range of customers

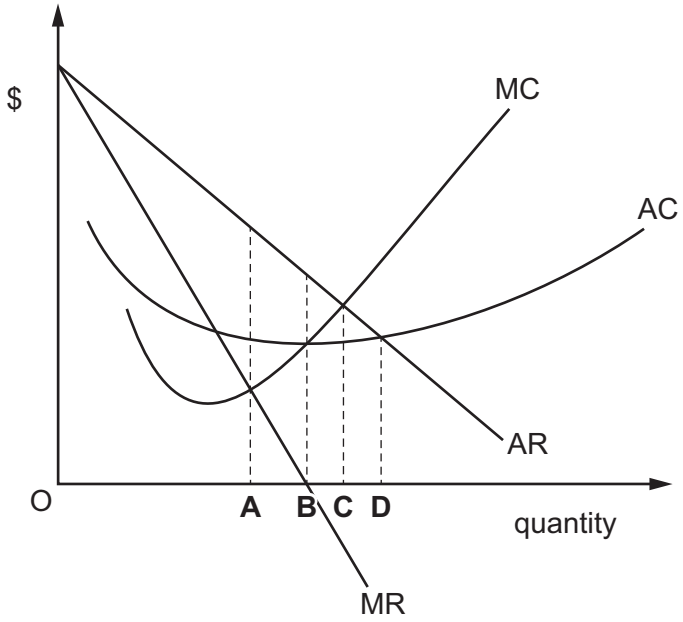
D the training of skilled labour at a college financed by local firms

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6 The diagram shows the costs and revenue for a monopoly.

Which level of output would produce only a normal profit?



7 Which combination of statements about small firms and large firms is most likely to be correct?

	small firms	large firms
A	are more common in manufacturing than in services	face high barriers to exit
B	are more numerous than large firms	do not experience diseconomies of scale
C	can do well when each item produced is different	may arise from internal growth or mergers
D	cannot have any monopoly power	cannot earn supernormal profits

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8 Good X is a popular product that creates a negative externality when it is consumed.

The government wants to reduce the consumption of good X significantly.

Under which circumstances is the government most likely to meet its aim?

	government policy	price elasticity of demand for good X
A	subsidy	more than 1
B	subsidy	less than 1
C	indirect tax	more than 1
D	indirect tax	less than 1

9 A government introduces tradeable pollution permits to reduce pollution.

What is an advantage of this scheme?

A It allows consumers to determine the optimum pollution level.

B It can provide rewards for firms that reduce pollution.

C It enables the government to raise revenue from the resale of permits.

D It uses the market system with no administrative costs.

10 To reduce traffic congestion, a government built a new highway. A majority of the citizens were opposed to this. Some citizens responded by switching from public transport to private cars. This caused car journeys to take even longer.

What can be concluded about government failure in this case?

A It occurred because the government‘s opportunity costs were not considered.

B It occurred because the wishes of the majority of citizens were ignored.

C It occurred because the result was unintended.

D It occurred from over-reliance on the market system.

11 What could result in an individual being caught in the poverty trap if their income increases?

A national minimum wage is changed

B benefits payments are means-tested

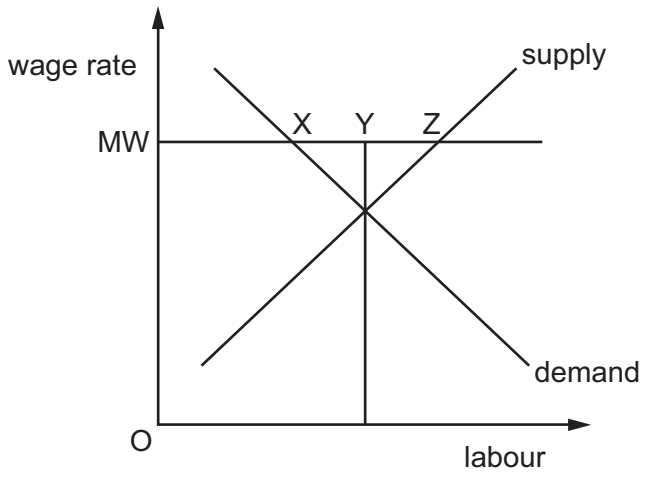
C subsidised housing payments for low-income earners are increased

D the income level at which income tax is first paid is increased

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12 The diagram shows the impact on the labour market of the introduction of a national minimum wage (MW).



What do the distances XY and YZ represent?

	XY	YZ
A	increase in employed workers	existing workers made redundant
B	existing workers made redundant	unemployed new entrants
C	existing workers made redundant	increase in employed workers
D	unemployed new entrants	existing workers made redundant

13 What is an example of 'nudge' theory as applied to the prevention of tax evasion?

A employing an extensive administration to ensure detection of evasion

B imposing heavy penalties on those who do evade tax

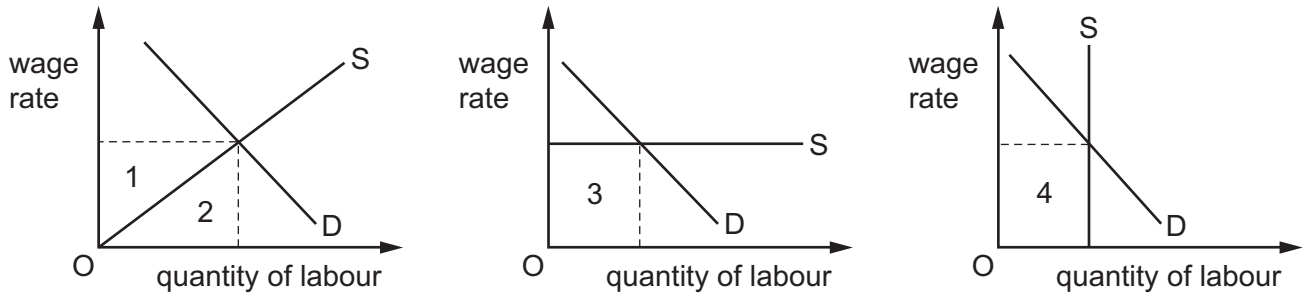
C providing information to taxpayers about the undesirable effects of tax evasion

D requiring employers to inform the tax authorities of workers' pay

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14 The diagrams show the demand for and supply of labour.



Which two areas represent economic rent?

A 1 and 3 **B** 1 and 4 **C** 2 and 3 **D** 2 and 4

15 In an economy with no government sector or foreign trade, the marginal propensity to consume is 0.6.

If the equilibrium level of national income is $10 000 million and the full employment level of national income is $15 000 million, by how much would investment have to increase to achieve full employment?

A $1666 million

B $2000 million

C $3012 million

D $5000 million

16 What is a definition of hysteresis unemployment?

A people who become temporarily unemployed because it takes a short period of time to find a job after they leave school

B people who become unemployed when there is a recession but who will find employment as the economy comes out of recession

C people who become unemployed for a long period of time due to a loss of job skills and work experience while unemployed

D people who become unemployed when established firms close and new firms are created as technology advances

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17 An economy has a positive output gap.

What is happening to economic growth and the general price level?

	economic growth	general price level
A	above trend growth rate	falling
B	above trend growth rate	rising
C	below trend growth rate	falling
D	below trend growth rate	rising

18 What is a factor affecting the occupational mobility of labour?

A education and training

B immigration controls

C price of housing

D transport infrastructure

19 A country's government decides to set artificially low interest rates.

What describes a **negative** consequence to this country of this policy?

A a higher rate of consumer price inflation

B a rapid growth in gross domestic product

C an increase in investment by manufacturers and real estate developers

D a reduction in borrowing by consumers

20 According to the quantity theory of money, which combination would result in the general level of prices remaining unchanged?

	money supply	total number of transactions	velocity of circulation
A	remains unchanged	remains unchanged	rises by 3%
B	rises by 3%	remains unchanged	rises by 3%
C	rises by 3%	rises by 3%	remains unchanged
D	rises by 3%	rises by 3%	rises by 3%

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21 A government increases its inflation rate target from 3% to 5%.

What is a likely reason for this?

A to increase economic sustainability

B to increase saving

C to reduce a balance of payments deficit

D to reduce unemployment

22 What would be a macroeconomic policy objective for a government in a developed economy?

A to improve sustainability

B to provide public goods

C to reduce the power of trade unions

D to subsidise the electricity supply industry

23 An economy is at its natural rate of unemployment.

Under which circumstances will an increase in government spending aimed at reducing unemployment be most likely to conflict with a government's objective of low inflation?

A if inflationary expectations are unchanged

B if inflationary expectations fall

C if labour productivity increases

D if labour supply increases

24 An economy imports a large proportion of its raw materials. Its exchange rate depreciates.

What is the impact on the external and internal value of money?

	external value of money	internal value of money
A	rises	rises
B	rises	falls
C	falls	rises
D	falls	falls

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25 A country's government imposes a tariff on steel imports.

What is the likely impact of this tariff on this country's economy?

A It will make this country's steel exports more price competitive.

B It will lead to productive inefficiency in this country's steel industry.

C There will be an improvement in this country's terms of trade.

D There will be a decrease in producer surplus for this country's steel producers.

26 Which measurement is **not** included in the calculation of the Human Development Index?

A average years of schooling

B Gross National Income per capita

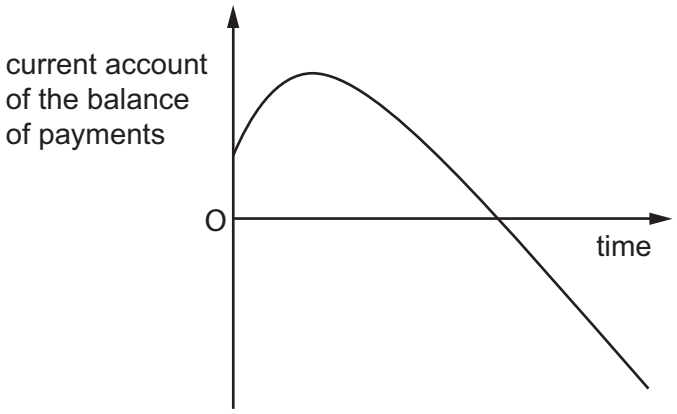
C infant mortality rate

D life expectancy at birth

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27 The diagram shows the impact of a revaluation of a country's exchange rate on the current account of the balance of payments.



The table gives the price elasticity of demand for imports, PED_M, and the price elasticity of demand for exports, PED_X, in both the short run and the long run.

Which combination of short run and long run elasticities will give the shape shown in the diagram?

	short run		long run	
	PED_M	PED_X	PED_M	PED_X
A	0.2	0.2	0.4	0.4
B	0.4	0.4	0.8	0.8
C	0.8	0.8	1.2	1.2
D	1.2	1.2	1.6	1.6

28 What is **not** a function of the International Monetary Fund (IMF)?

A to encourage exchange rate stability

B to provide financial assistance for a country with failed economic policies

C to provide funds for a water purifying plant in a developing country

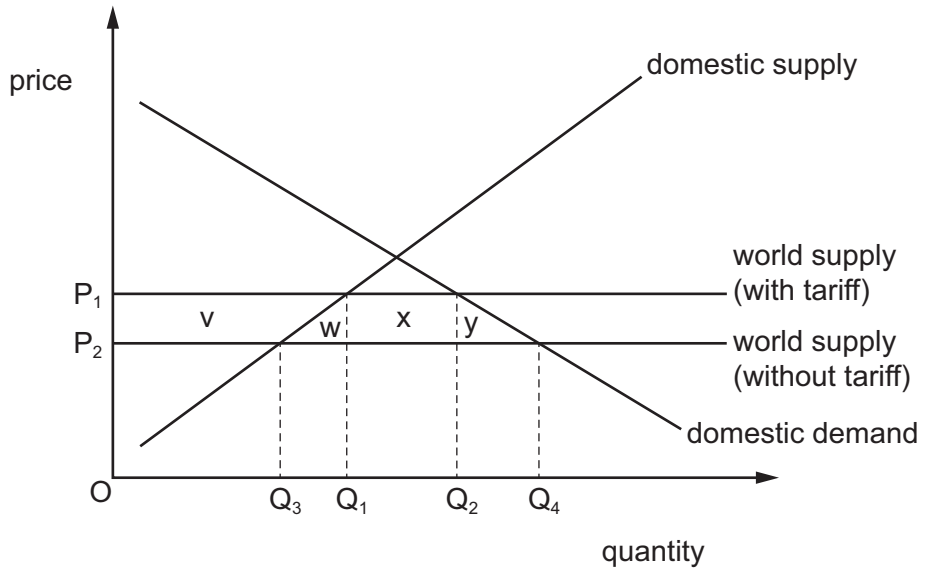
D to provide loans for countries following a natural disaster

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29 The diagram shows the effect of trade creation if a tariff is removed.



Which areas show the total net gain to the domestic economy?

A v, w, x and y

B v, w and x only

C w and x only

D w and y only

30 What is most likely to prevent a developing country from achieving economic development?

A increased allocation of resources to production of goods that have a high income elasticity of demand

B increased government legislation for the protection of employment

C increased tax allowances on firms investing in research and development

D the decision of developed countries to increase quotas for goods produced by developing countries

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Surname	StemUp Model Solution
Answer booklet	Write the question number in the left-hand margin at the start of each answer.

Question number

Paper 9708/31: Multiple choice answers

1	B	Utility is maximised when the marginal utility per $ spent (marginal valuation) is equal for every product bought.
2	C	At P3, Q3 price = MC (allocatively efficient), but AC is still falling and above its minimum, so not productively efficient.
3	A	The budget line depends only on income and the prices of goods; preferences decide where on the line the consumer chooses.
4	C	Consumer chose Q1 (MPB1 = MPC1). True cost is MPC2, which cuts MPB1 at Q3, so they overconsume by Q1Q3.
5	C	Risk-bearing economies come from the firm's own growth (selling to more customers); A, B and D are external economies.
6	D	Normal profit only when AR = AC (price just covers average cost), which happens at output D.
7	C	Small firms survive where products are individual or tailor-made; large firms grow internally or by merger.
8	C	An indirect tax raises price; with PED > 1 demand is elastic, so the quantity consumed falls by a large proportion.
9	B	Firms that cut pollution need fewer permits and can sell spare ones, so they are rewarded for reducing pollution.
10	C	Government failure: the new highway encouraged more car use, an unintended outcome that made congestion worse.
11	B	With means-tested benefits, extra income means benefits are withdrawn (and tax paid), so the worker gains little.
12	B	XY: existing workers made redundant (demand falls from Y to X); Y2: new

Question number		
		entrants attracted by MW who find no job.
13	C	A nudge changes behaviour by giving information or framing choices, not by force, penalties or regulation.
14	B	Economic rent = earnings above supply curve: area 1, and area 4 where supply is perfectly inelastic (all rent).
15	B	$k = 1 \div (1 - 0.6) = 2.5$. Gap = \$15000m − \$10000m = \$5000m. ΔI = \$5000m ÷ 2.5 = \$2000m.
16	C	Hysteresis: long spells of unemployment erode skills and work experience, so the unemployment persists.
17	B	Positive output gap: actual output above potential, so growth above trend and excess demand pushes prices up.
18	A	Occupational mobility is the ability to change jobs/skills, so it depends on education and training.
19	A	Very low interest rates boost borrowing and spending, so excess demand causes higher consumer price inflation.
20	C	$MV = PT$: M up 3%, T up 3%, V unchanged, so $P = MV \div T$ stays the same.
21	D	A higher inflation target allows looser policy and higher AD, so output rises and unemployment falls.
22	A	Sustainability is a macro objective; public goods, union power and subsidies are micro issues.
23	A	At the natural rate, extra AD only raises wages and prices; nothing (expectations, productivity, labour supply) offsets it.
24	D	Depreciation: external value falls; dearer imported raw materials cause cost-push inflation, so internal value falls.
25	B	Protection from foreign competition reduces pressure to cut costs, so the steel industry is productively inefficient.
26	C	HDI uses life expectancy, years of schooling and GNI per capita; infant mortality is not included.

Question number		
27	B	Short run PEDX + PEDM = 0.4 + 0.4 = 0.8 < 1, so current account first improves; long run 0.8 + 0.8 = 1.6 > 1, so it worsens.
28	C	Funding a single water plant is project aid (World Bank role), not an IMF function.
29	D	w (less inefficient domestic production) and y (more consumption) are net gains; v is a transfer, x is lost tariff revenue.
30	B	Strict employment protection raises labour costs and reduces flexibility, discouraging investment and job creation.

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ECONOMICS **9708/32**

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1 hour 15 minutes

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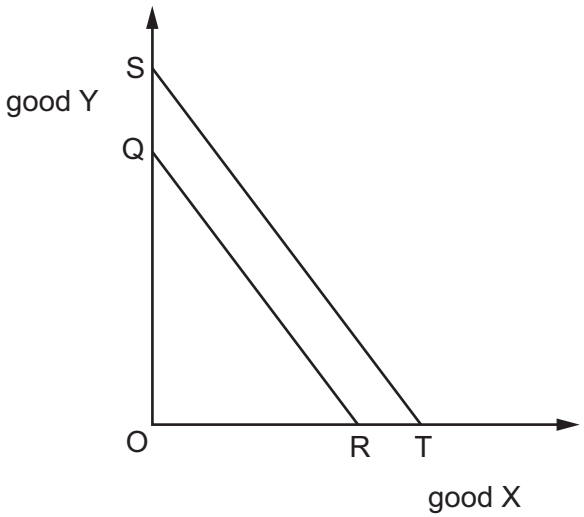
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1 The diagram shows budget lines for an individual consumer.



What could explain the shift in the budget line from QR to ST?

A a decrease in the consumer's real income

B a decrease in the quality of both goods

C an increase in the consumer's money income

D an increase in the price of both goods

2 When is allocative efficiency achieved?

A when a perfectly competitive market is in equilibrium

B when everybody who needs the product can obtain it

C when firms produce at the lowest possible cost

D when monopolistic firms make normal profits

3 A consumer spends all of their income on only two goods, X and Y. The consumer is initially in equilibrium, maximising their total utility. The consumer's tastes change and they get less utility from consuming good Y. The prices of both goods are unchanged.

What would be a rational response from the consumer?

	good X	good Y
A	buy less	buy more
B	buy more	buy less
C	buy more	unchanged
D	unchanged	buy less

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4 When might a moral hazard occur?

A When a consumer does not have full information about a product.

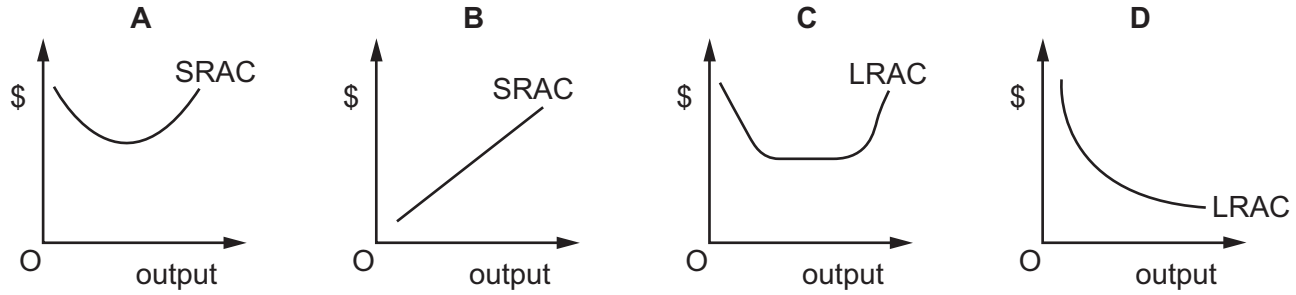
B When a person undertakes an activity that causes harm to another person.

C When a person undertakes a risky activity, knowing another person bears the risk.

D When the seller of a product has more information than the buyer.

5 The diagrams show four average cost curves.

Which diagram illustrates diseconomies of scale?



6 What would enable a firm to increase its market share in a monopolistically competitive market?

A barriers to entry

B collusion

C lack of competition

D successful advertising

7 Two manufacturing firms in the same industry, producing similar products, are considering merging together.

What would be the **least** convincing reason for merging?

A It would enable greater bargaining power when buying raw materials.

B It would enable technical economies of scale.

C It would produce savings in management and administration costs.

D It would reduce the dependence of the firms on the suppliers of raw materials.

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8 The marginal social benefit of consuming a drink is less than the marginal private benefit.

What would be the best policy to improve resource allocation in this market?

A give a subsidy to the producers of the drink

B increase competition in the drink industry

C impose a maximum price for the drink above the market equilibrium price

D impose a per unit tax on the drink

9 A country's government banned cigarette smoking in enclosed public spaces, such as offices, shops, bars and restaurants.

What is a government failure arising from this ban?

A decreased consumption of cigarettes by smokers

B decreased levels of passive cigarette smoking by non-smokers

C increased litter from used cigarettes outside offices and shops

D increased sales of cigarette substitutes like nicotine patches and gum

10 A worker has a low wage. They have little incentive to earn extra income because they will pay more income tax and receive fewer means-tested benefits.

What describes this worker's situation?

A employment trap

B liquidity trap

C poverty trap

D unemployment trap

11 What is **not** an outcome of the existence of private property rights?

A They encourage private owners to conserve property when its value is expected to rise.

B They give private owners the incentive to manage their property carefully.

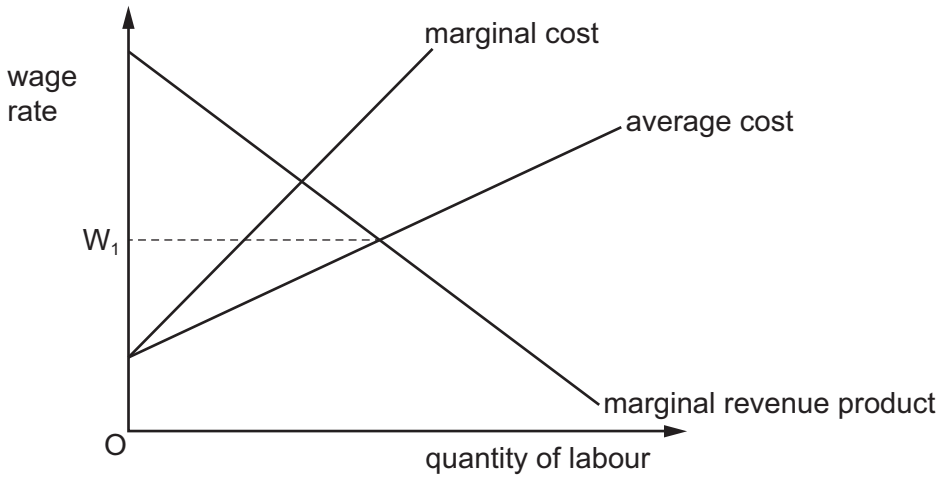
C They make private owners accountable for damage to others from property misuse.

D They prevent private owners gaining from using resources to benefit others.

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12 The diagram shows the labour market for a profit maximising industry with a monopsony employer.



What will decrease if a minimum wage of W_1 is introduced?

A economic rent

B transfer earnings

C unemployment

D wages

13 What is **not** a factor affecting the supply of labour?

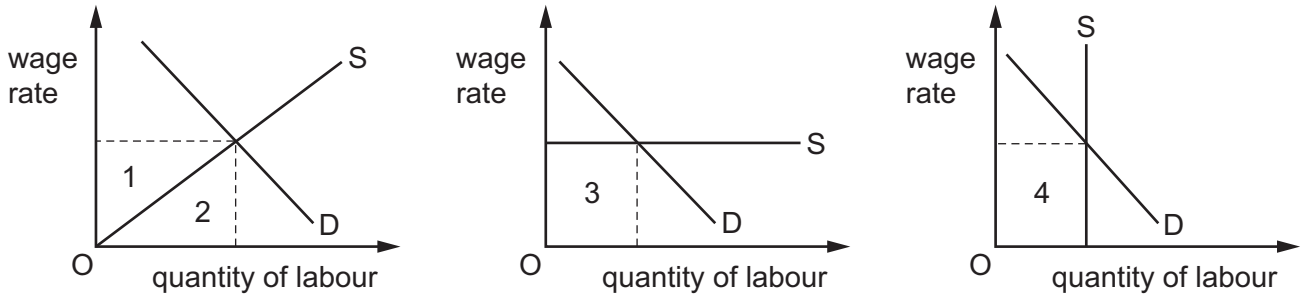
A emigration rates

B labour participation rate

C labour productivity

D unemployment benefits

14 The diagrams show the demand for and supply of labour.



Which two areas represent transfer earnings?

A 1 and 3 **B** 1 and 4 **C** 2 and 3 **D** 2 and 4

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15 An initial injection into the circular flow of income causes a much larger increase in GDP.

What does this define?

A autonomous investment

B demand-pull inflation

C the accelerator principle

D the national income multiplier

16 An increase in a country's inflation rate causes real incomes to decline, but consumers decide to maintain their living standards.

What has increased?

A autonomous consumer spending

B autonomous saving

C induced consumer spending

D induced savings

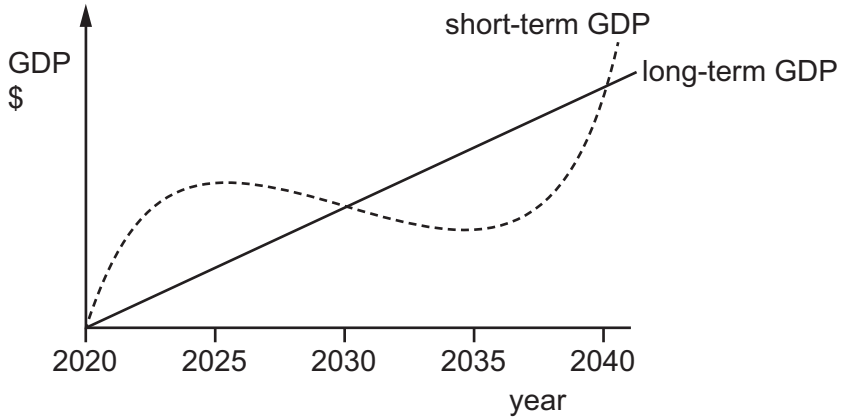
17 Which combination of income tax and government benefit payment systems will produce automatic stabilisation?

	income tax	benefit payments system
A	progressive	means tested
B	progressive	universal
C	regressive	means tested
D	regressive	universal

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18 The diagram shows the actual and forecast changes in GDP for a country between 2020 and 2040.



What is the longest period over which this country is expected to experience a recession?

A 2025 to 2030 **B** 2025 to 2035 **C** 2030 to 2035 **D** 2030 to 2040

19 The diagram outlines the monetary transmission mechanism following quantitative easing. Key words have been omitted from the process.

central bank .....1..... government assets

↓

short-term interest rates .....2.....

↓

investment .....3.....

↓

real GDP rises

Which words complete gaps 1, 2 and 3?

	1	2	3
A	buys	fall	rises
B	buys	rise	rises
C	sells	fall	rises
D	sells	fall	falls

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20 A government decreases interest rates to reduce unemployment but finds this has little effect due to hysteresis.

What causes this hysteresis?

A capital investment increases

B fewer people are encouraged to save

C skills of unemployed workers become outdated

D the money supply increases

21 In a closed economy, the central bank raises interest rates to reduce an increasing rate of inflation.

Which macroeconomic policy objective is this targeting?

A a surplus on the current account of the balance of payments

B faster economic growth

C full employment

D stable prices

22 A government sets a target for the annual rate of inflation to be no more than 3%.

Which circumstances would make it **difficult** to achieve the target?

A if devaluation of the currency leads to a trade surplus

B if interest rates are increased to control effective demand

C if the government increases its tax revenue

D if wage increases are kept in line with productivity

23 The central bank of a country decreases interest rates.

What are the likely consequences?

	internal value of the currency	external value of the currency
A	falls	falls
B	falls	rises
C	rises	falls
D	rises	rises

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24 What is the most likely consequence when there is an increase in the national debt?

A the creation of additional money

B a current account deficit on the balance of payments

C a surplus in the government's budget

D the crowding out of private sector investment

25 Which policy will help to reduce income inequality?

A to increase indirect taxes

B to increase trade union power

C to increase the rate of interest

D to reduce welfare payments

26 The value of the currency of an open economy with a fixed exchange rate is significantly below its purchasing power parity value.

If the economy decides to adopt a floating exchange rate, which of its macroeconomic policy aims is most likely to benefit?

A low inflation

B low unemployment

C reduced deficit on the current account of the balance of payments

D steady economic growth

27 Which policy will help to correct a deficit on the current account of the balance of payments?

A decreasing direct taxes

B decreasing government regulations

C increasing exchange rates

D increasing government spending

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28 The table shows possible changes in population, the rate of inflation and the number of years of education.

Which combination would lead to an increase in both real GDP per capita and the Human Development Index?

	population	rate of inflation	number of years of education
A	falls	falls	rises
B	falls	rises	rises
C	rises	falls	falls
D	rises	rises	rises

29 The following are four conditions sometimes attached to IMF loans to low-income countries.

Which condition would conflict with the 'infant industry' argument?

A the need to allow free trade

B the need to control inflation

C the need to have a contractionary fiscal policy

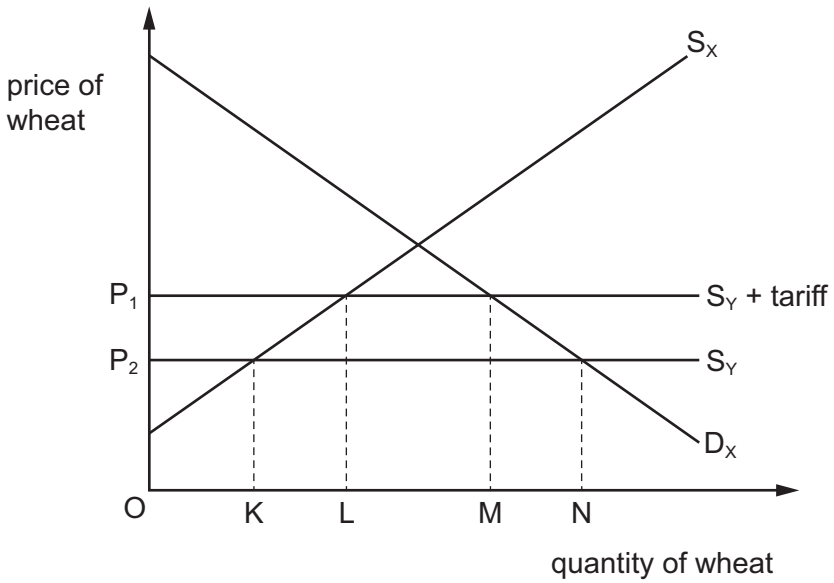
D the need to privatise government enterprises

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30 Countries X and Y form a customs union which leads to a removal of tariffs between the countries.

The diagram shows the effect on the market for wheat in country X.



How much wheat is imported into country X from country Y before and after the customs union?

	before customs union	after customs union
A	KL	MN
B	KL	KN
C	LM	MN
D	LM	KN

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Surname	StemUp Model Solution
Answer booklet	Write the question number in the left-hand margin at the start of each answer.

Question number

Paper 9708/32: Multiple choice answers

1	C	Parallel outward shift: same relative prices, but more of both goods affordable, so money income has risen.
2	A	In perfect competition equilibrium P = MC, so resources are allocatively efficient.
3	B	MU per $ of Y falls below that of X, so the rational consumer buys more X and less Y until they are equal again.
4	C	Moral hazard: a person takes more risk because someone else (eg an insurer) bears the cost.
5	C	Diseconomies of scale are shown by the LRAC rising as output increases, which is diagram C.
6	D	Successful advertising strengthens brand loyalty and product differentiation, so market share rises.
7	D	A horizontal merger of two producers does not reduce dependence on raw material suppliers (that needs backward integration).
8	D	MSB < MPB is a negative consumption externality, so a per unit tax reduces consumption towards the social optimum.
9	C	More litter from smokers outside is an unintended negative outcome of the ban, so it is government failure.
10	C	Higher tax and loss of means-tested benefits as income rises give little incentive to earn more: the poverty trap.
11	D	Property rights let owners gain from using resources to benefit others (eg selling or renting), so D is false.
12	C	A minimum wage of W1 makes MC of labour = W1 up to the supply curve, so

Question number		
		the monopsonist hires more and unemployment falls.
13	C	Labour productivity affects MRP, so it affects demand for labour, not supply.
14	C	Transfer earnings = area below supply curve: area 2, and area 3 where supply is perfectly elastic (all transfer earnings).
15	D	The multiplier: an initial injection creates rounds of spending, so GDP rises by a multiple of the injection.
16	A	Consumers keep spending the same in real terms whatever their income, so consumption not related to income rises.
17	A	Progressive tax takes more and means-tested benefits pay less as incomes rise (and vice versa), stabilising demand.
18	B	Short-term GDP falls from its peak in about 2025 to its trough in about 2035: the longest fall in output.
19	A	Central bank buys government assets, interest rates fall, investment rises, so real GDP rises.
20	C	Hysteresis: the long-term unemployed lose skills that are outdated, so cheaper borrowing does not get them jobs.
21	D	Raising interest rates to reduce inflation targets price stability.
22	A	Devaluation raises import prices and a trade surplus adds to AD, both pushing inflation above 3%.
23	A	Lower rates raise AD and inflation, so internal value falls; hot money outflows reduce the external value.
24	D	More government borrowing raises demand for loanable funds and interest rates, crowding out private investment.
25	B	Stronger trade unions can raise wages of lower paid workers, narrowing the income gap.
26	A	The undervalued currency appreciates when floated, so import prices fall and inflation is lower.
27	B	Less regulation lowers firms' costs, so exports become more competitive and

Question number		
		the current account improves.
28	A	Falling population raises GDP per head; lower inflation lifts real income; more years of education raise HDI.
29	A	Free trade removes the protection that infant industries need until they reach economies of scale.
30	D	Before: imports at P1 = LM (demand minus domestic supply). After the union price falls to P2, so imports = KN.

Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/33**

Paper 3 A Level Multiple Choice **May/June 2025**

1 hour 15 minutes

You must answer on the multiple choice answer sheet.

You will need: Multiple choice answer sheet
Soft clean eraser
Soft pencil (type B or HB is recommended)

INSTRUCTIONS

- 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 multiple choice answer sheet.
- Follow the instructions on the multiple choice answer sheet.
- Write in soft pencil.
- Write your name, centre number and candidate number on the multiple choice answer sheet in the spaces provided unless this has been done for you.
- Do **not** use correction fluid.
- Do **not** write on any bar codes.
- You may use a calculator.

INFORMATION

- The total mark for this paper is 30.
- Each correct answer will score one mark.
- Any rough working should be done on this question paper.

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1 What is the equi-marginal principle?

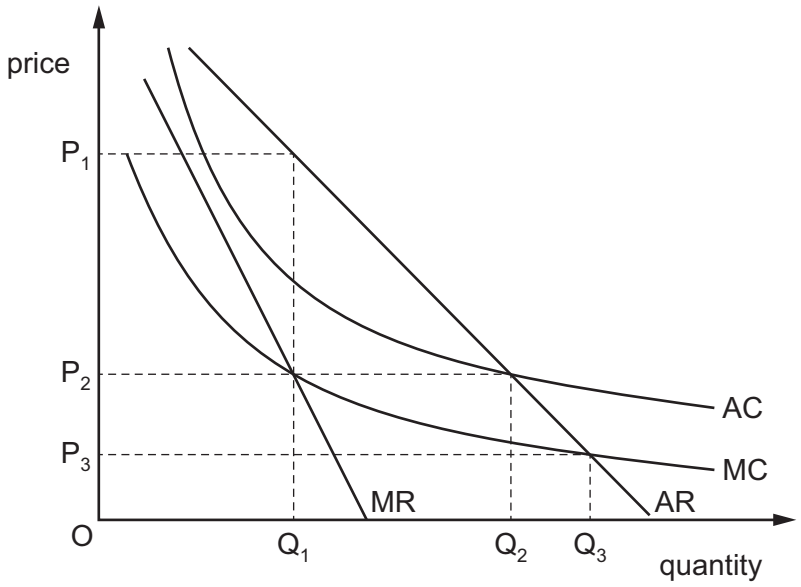
A As consumption of a product increases, the satisfaction from consumption of the product decreases by an equal amount.

B Consumers maximise utility where their marginal valuation for each product consumed is the same.

C The total satisfaction received by consumers from consumption of a product is constant.

D The marginal utility derived by consumers from the consumption of one more unit of a product is constant.

2 The diagram shows the cost and revenue curves for a natural monopoly.



Which statement is correct?

A P_2 and Q_2 will achieve both allocative efficiency and productive efficiency.

B P_2 and Q_1 will achieve productive efficiency but not allocative efficiency.

C P_3 and Q_3 will achieve allocative efficiency but not productive efficiency.

D P_3 and Q_3 will achieve both allocative efficiency and productive efficiency.

3 What would **not** affect the budget line of an individual consumer?

A the individual's preference for various goods

B the level of income tax

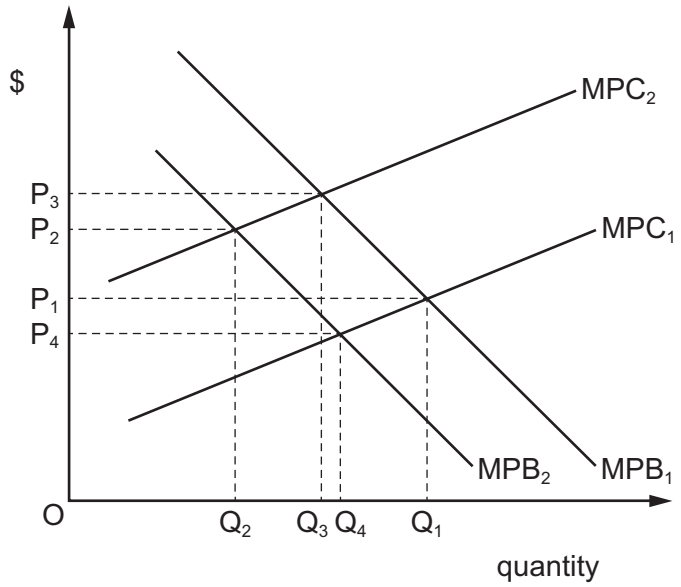
C the money prices of goods

D the incomes earned by the individual

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4 The diagram shows the marginal private costs (MPC) and marginal private benefits (MPB) of a product. Consumers initially estimate that marginal private costs are at MPC_1 and marginal private benefits are at MPB_1.



What is the impact on the market demand for the product if the consumer realises they have underestimated the MPC of buying the product but **not** the MPB?

A The consumer underconsumes the product by Q_1Q_2.

B The consumer underconsumes the product by Q_1Q_3.

C The consumer overconsumes the product by Q_1Q_3.

D The consumer overconsumes the product by Q_1Q_4.

5 What is an internal economy of scale?

A efficient local transport networks

B improved access to spare parts as a result of industry growth

C lower risks from supplying a wider range of customers

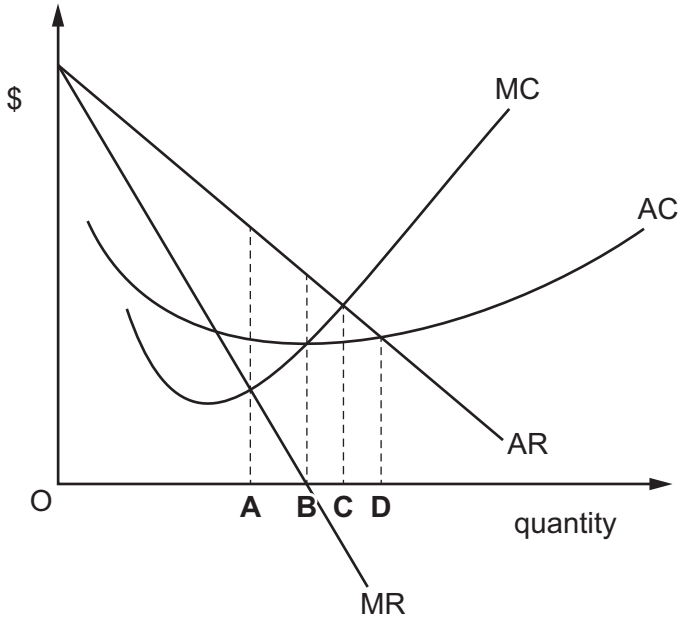
D the training of skilled labour at a college financed by local firms

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6 The diagram shows the costs and revenue for a monopoly.

Which level of output would produce only a normal profit?



7 Which combination of statements about small firms and large firms is most likely to be correct?

	small firms	large firms
A	are more common in manufacturing than in services	face high barriers to exit
B	are more numerous than large firms	do not experience diseconomies of scale
C	can do well when each item produced is different	may arise from internal growth or mergers
D	cannot have any monopoly power	cannot earn supernormal profits

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8 Good X is a popular product that creates a negative externality when it is consumed.

The government wants to reduce the consumption of good X significantly.

Under which circumstances is the government most likely to meet its aim?

	government policy	price elasticity of demand for good X
A	subsidy	more than 1
B	subsidy	less than 1
C	indirect tax	more than 1
D	indirect tax	less than 1

9 A government introduces tradeable pollution permits to reduce pollution.

What is an advantage of this scheme?

A It allows consumers to determine the optimum pollution level.

B It can provide rewards for firms that reduce pollution.

C It enables the government to raise revenue from the resale of permits.

D It uses the market system with no administrative costs.

10 To reduce traffic congestion, a government built a new highway. A majority of the citizens were opposed to this. Some citizens responded by switching from public transport to private cars. This caused car journeys to take even longer.

What can be concluded about government failure in this case?

A It occurred because the government‘s opportunity costs were not considered.

B It occurred because the wishes of the majority of citizens were ignored.

C It occurred because the result was unintended.

D It occurred from over-reliance on the market system.

11 What could result in an individual being caught in the poverty trap if their income increases?

A national minimum wage is changed

B benefits payments are means-tested

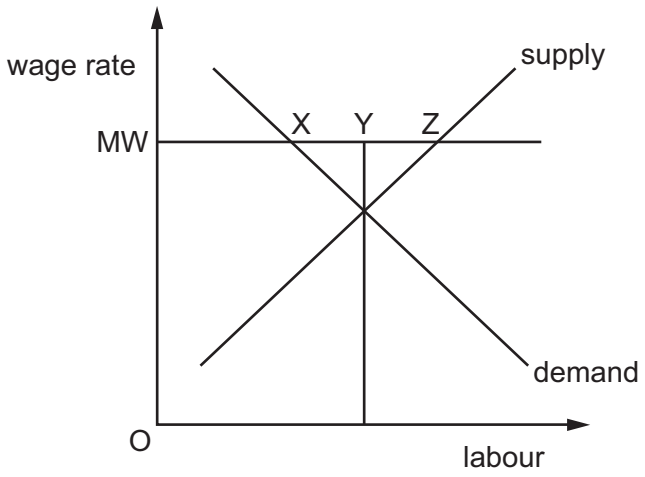
C subsidised housing payments for low-income earners are increased

D the income level at which income tax is first paid is increased

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12 The diagram shows the impact on the labour market of the introduction of a national minimum wage (MW).



What do the distances XY and YZ represent?

	XY	YZ
A	increase in employed workers	existing workers made redundant
B	existing workers made redundant	unemployed new entrants
C	existing workers made redundant	increase in employed workers
D	unemployed new entrants	existing workers made redundant

13 What is an example of 'nudge' theory as applied to the prevention of tax evasion?

A employing an extensive administration to ensure detection of evasion

B imposing heavy penalties on those who do evade tax

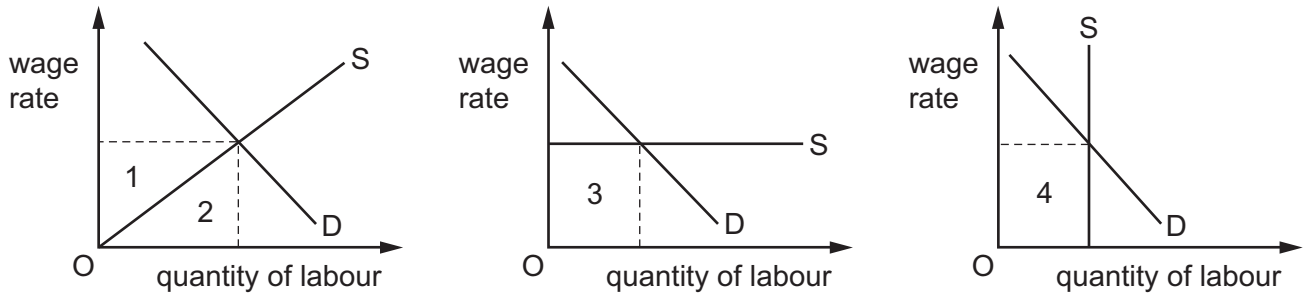
C providing information to taxpayers about the undesirable effects of tax evasion

D requiring employers to inform the tax authorities of workers' pay

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14 The diagrams show the demand for and supply of labour.



Which two areas represent economic rent?

A 1 and 3 **B** 1 and 4 **C** 2 and 3 **D** 2 and 4

15 In an economy with no government sector or foreign trade, the marginal propensity to consume is 0.6.

If the equilibrium level of national income is $10 000 million and the full employment level of national income is $15 000 million, by how much would investment have to increase to achieve full employment?

A $1666 million

B $2000 million

C $3012 million

D $5000 million

16 What is a definition of hysteresis unemployment?

A people who become temporarily unemployed because it takes a short period of time to find a job after they leave school

B people who become unemployed when there is a recession but who will find employment as the economy comes out of recession

C people who become unemployed for a long period of time due to a loss of job skills and work experience while unemployed

D people who become unemployed when established firms close and new firms are created as technology advances

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17 An economy has a positive output gap.

What is happening to economic growth and the general price level?

	economic growth	general price level
A	above trend growth rate	falling
B	above trend growth rate	rising
C	below trend growth rate	falling
D	below trend growth rate	rising

18 What is a factor affecting the occupational mobility of labour?

A education and training

B immigration controls

C price of housing

D transport infrastructure

19 A country's government decides to set artificially low interest rates.

What describes a **negative** consequence to this country of this policy?

A a higher rate of consumer price inflation

B a rapid growth in gross domestic product

C an increase in investment by manufacturers and real estate developers

D a reduction in borrowing by consumers

20 According to the quantity theory of money, which combination would result in the general level of prices remaining unchanged?

	money supply	total number of transactions	velocity of circulation
A	remains unchanged	remains unchanged	rises by 3%
B	rises by 3%	remains unchanged	rises by 3%
C	rises by 3%	rises by 3%	remains unchanged
D	rises by 3%	rises by 3%	rises by 3%

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21 A government increases its inflation rate target from 3% to 5%.

What is a likely reason for this?

A to increase economic sustainability

B to increase saving

C to reduce a balance of payments deficit

D to reduce unemployment

22 What would be a macroeconomic policy objective for a government in a developed economy?

A to improve sustainability

B to provide public goods

C to reduce the power of trade unions

D to subsidise the electricity supply industry

23 An economy is at its natural rate of unemployment.

Under which circumstances will an increase in government spending aimed at reducing unemployment be most likely to conflict with a government's objective of low inflation?

A if inflationary expectations are unchanged

B if inflationary expectations fall

C if labour productivity increases

D if labour supply increases

24 An economy imports a large proportion of its raw materials. Its exchange rate depreciates.

What is the impact on the external and internal value of money?

	external value of money	internal value of money
A	rises	rises
B	rises	falls
C	falls	rises
D	falls	falls

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25 A country's government imposes a tariff on steel imports.

What is the likely impact of this tariff on this country's economy?

A It will make this country's steel exports more price competitive.

B It will lead to productive inefficiency in this country's steel industry.

C There will be an improvement in this country's terms of trade.

D There will be a decrease in producer surplus for this country's steel producers.

26 Which measurement is **not** included in the calculation of the Human Development Index?

A average years of schooling

B Gross National Income per capita

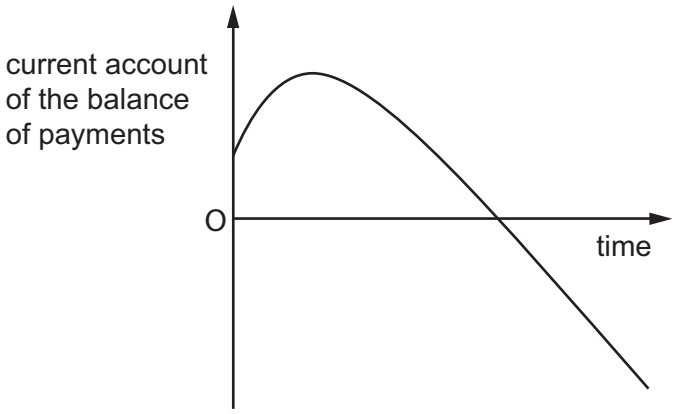
C infant mortality rate

D life expectancy at birth

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27 The diagram shows the impact of a revaluation of a country's exchange rate on the current account of the balance of payments.



The table gives the price elasticity of demand for imports, PED_M, and the price elasticity of demand for exports, PED_X, in both the short run and the long run.

Which combination of short run and long run elasticities will give the shape shown in the diagram?

	short run		long run	
	PED_M	PED_X	PED_M	PED_X
A	0.2	0.2	0.4	0.4
B	0.4	0.4	0.8	0.8
C	0.8	0.8	1.2	1.2
D	1.2	1.2	1.6	1.6

28 What is **not** a function of the International Monetary Fund (IMF)?

A to encourage exchange rate stability

B to provide financial assistance for a country with failed economic policies

C to provide funds for a water purifying plant in a developing country

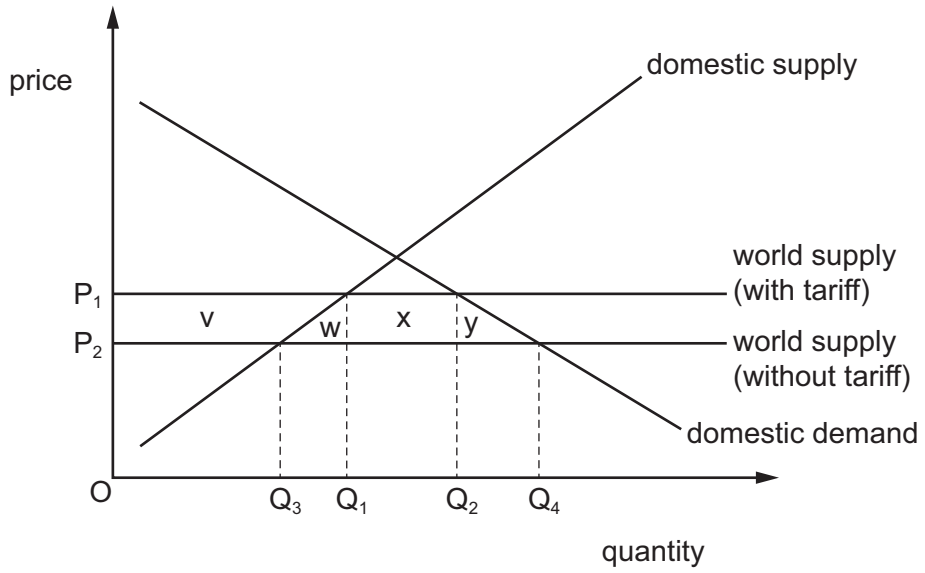
D to provide loans for countries following a natural disaster

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29 The diagram shows the effect of trade creation if a tariff is removed.



Which areas show the total net gain to the domestic economy?

A v, w, x and y

B v, w and x only

C w and x only

D w and y only

30 What is most likely to prevent a developing country from achieving economic development?

A increased allocation of resources to production of goods that have a high income elasticity of demand

B increased government legislation for the protection of employment

C increased tax allowances on firms investing in research and development

D the decision of developed countries to increase quotas for goods produced by developing countries

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Surname	StemUp Model Solution
Answer booklet	Write the question number in the left-hand margin at the start of each answer.

Question number

Paper 9708/33: Multiple choice answers

1	B	Utility is maximised when the marginal utility per $ spent (marginal valuation) is equal for every product bought.
2	C	At P3, Q3 price = MC (allocatively efficient), but AC is still falling and above its minimum, so not productively efficient.
3	A	The budget line depends only on income and the prices of goods; preferences decide where on the line the consumer chooses.
4	C	Consumer chose Q1 (MPB1 = MPC1). True cost is MPC2, which cuts MPB1 at Q3, so they overconsume by Q1Q3.
5	C	Risk-bearing economies come from the firm's own growth (selling to more customers); A, B and D are external economies.
6	D	Normal profit only when AR = AC (price just covers average cost), which happens at output D.
7	C	Small firms survive where products are individual or tailor-made; large firms grow internally or by merger.
8	C	An indirect tax raises price; with PED > 1 demand is elastic, so the quantity consumed falls by a large proportion.
9	B	Firms that cut pollution need fewer permits and can sell spare ones, so they are rewarded for reducing pollution.
10	C	Government failure: the new highway encouraged more car use, an unintended outcome that made congestion worse.
11	B	With means-tested benefits, extra income means benefits are withdrawn (and tax paid), so the worker gains little.
12	B	XY: existing workers made redundant (demand falls from Y to X); Y2: new

Question number		
		entrants attracted by MW who find no job.
13	C	A nudge changes behaviour by giving information or framing choices, not by force, penalties or regulation.
14	B	Economic rent = earnings above supply curve: area 1, and area 4 where supply is perfectly inelastic (all rent).
15	B	$k = 1 \div (1 - 0.6) = 2.5$. Gap = \$15000m − \$10000m = \$5000m. ΔI = \$5000m ÷ 2.5 = \$2000m.
16	C	Hysteresis: long spells of unemployment erode skills and work experience, so the unemployment persists.
17	B	Positive output gap: actual output above potential, so growth above trend and excess demand pushes prices up.
18	A	Occupational mobility is the ability to change jobs/skills, so it depends on education and training.
19	A	Very low interest rates boost borrowing and spending, so excess demand causes higher consumer price inflation.
20	C	$MV = PT$: M up 3%, T up 3%, V unchanged, so $P = MV \div T$ stays the same.
21	D	A higher inflation target allows looser policy and higher AD, so output rises and unemployment falls.
22	A	Sustainability is a macro objective; public goods, union power and subsidies are micro issues.
23	A	At the natural rate, extra AD only raises wages and prices; nothing (expectations, productivity, labour supply) offsets it.
24	D	Depreciation: external value falls; dearer imported raw materials cause cost-push inflation, so internal value falls.
25	B	Protection from foreign competition reduces pressure to cut costs, so the steel industry is productively inefficient.
26	C	HDI uses life expectancy, years of schooling and GNI per capita; infant mortality is not included.

Question number		
27	B	Short run PEDX + PEDM = 0.4 + 0.4 = 0.8 < 1, so current account first improves; long run 0.8 + 0.8 = 1.6 > 1, so it worsens.
28	C	Funding a single water plant is project aid (World Bank role), not an IMF function.
29	D	w (less inefficient domestic production) and y (more consumption) are net gains; v is a transfer, x is lost tariff revenue.
30	B	Strict employment protection raises labour costs and reduces flexibility, discouraging investment and job creation.

Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/34**

Paper 3 A Level Multiple Choice **May/June 2025**

1 hour 15 minutes

You must answer on the multiple choice answer sheet.

You will need: Multiple choice answer sheet
Soft clean eraser
Soft pencil (type B or HB is recommended)

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INSTRUCTIONS

- 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 multiple choice answer sheet.
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INFORMATION

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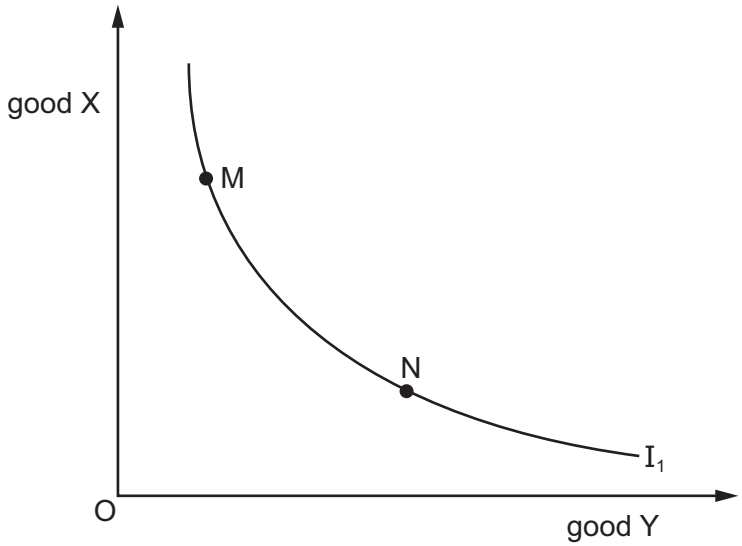
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1 The diagram shows a consumer's indifference curve (I_1) for two goods, X and Y.



The consumer moves from point M to point N.

What happens to the consumer's marginal utility and total utility as a result of this move?

	marginal utility from good X	marginal utility from good Y	total utility
A	decreases	increases	increases
B	decreases	decreases	unchanged
C	increases	decreases	unchanged
D	increases	unchanged	decreases

2 What is the most likely combination of circumstances leading to a good being under-consumed?

	the good is a demerit good	there are external benefits in consumption
A	no	no
B	no	yes
C	yes	yes
D	yes	no

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3 Why does the lack of property rights cause an inefficient allocation of resources?

A Scarce resources are depleted because the owner has sold them too cheaply.

B Scarce resources are depleted because they had zero cost to the users.

C Scarce resources are under-allocated to the provision of demerit goods.

D Scarce resources are under-allocated to the provision of merit goods.

4 A cost–benefit analysis is carried out on the construction of a hydroelectric power station.

Under which circumstances would the scheme be most likely to be approved?

A Private benefits are greater than private costs.

B Social benefits are greater than social costs.

C Social benefits are greater than external costs.

D External costs are greater than external benefits.

5 Which type of market structure enables price leadership to take place?

A monopolistic competition

B oligopoly

C perfect competition

D pure monopoly

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6 The tables show the market share of the five largest firms in two separate industries.

industry X	
firm	market share %
E	32
F	26
G	22
H	10
J	5

industry Z	
firm	market share %
L	17
M	15
N	14
P	12
R	6

What does this data suggest is most likely?

A Industry X is highly contestable.

B Industry X is oligopolistic.

C Industry Z has a lower level of output than industry X.

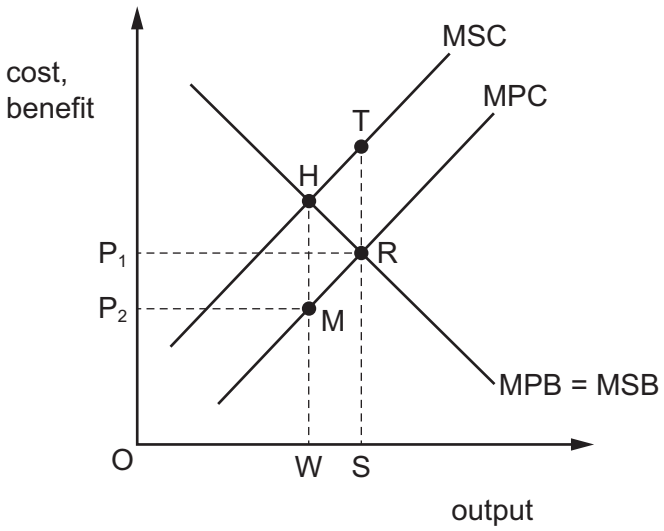
D Industry Z is less competitive than industry X.

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7 The diagram shows the private and social marginal costs and benefits of a manufacturer.

The current equilibrium is at point R.



What should the government do to improve allocative efficiency and produce at the socially optimal level of output?

A introduce a subsidy TR

B introduce a specific tax HM

C set a maximum price of OP_1

D set a minimum price of OP_2

8 A government wishes to discourage tax avoidance.

Which policy to achieve this would be an example of the behavioural approach of nudge theory?

A compelling direct tax deduction by employers

B making random inspections of individual tax records

C providing information on how the tax is spent by the government

D using penalties such as fines and imprisonment for tax avoidance

9 What indicates that a more equal distribution of income has been achieved?

A a faster rate of economic growth

B a higher Human Development Index

C a lower Gini coefficient

D a lower tax/GDP ratio

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10 Which policy by a government would increase the negative externalities that result from cigarette smoking?

A a ban on cigarette advertising

B a ban on cigarette smoking in public places

C a ban on substitutes for cigarettes

D a ban on the sale of cigarettes

11 What determines the amount by which employment is reduced if a minimum wage is set 5% above the equilibrium market wage?

A the average revenue product curve

B the marginal revenue product curve

C the mobility of labour

D the wage rate in other industries

12 What will increase the power of a trade union, allowing it to increase wages without reducing the employment of its members in a particular industry?

A The economy is experiencing a fall in the price of capital.

B The economy is experiencing rising employment.

C The price elasticity of demand for the industry's goods is equal to 1.

D The price elasticity of demand for the industry's goods is greater than 1.

13 In a closed economy with no government, the level of consumption spending is determined by the equation $C = a + bY$.

What does b represent in this equation?

A autonomous consumption

B autonomous investment

C the average propensity to consume

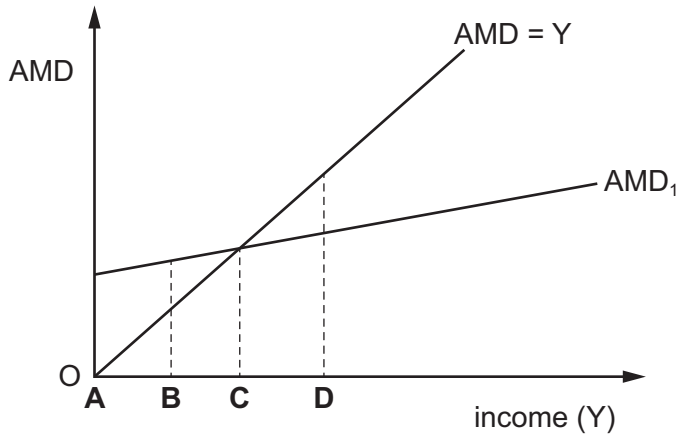
D the marginal propensity to consume

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14 The diagram shows an economy's aggregate monetary demand curve, AMD_1.

Which level of income will produce the greatest difference between autonomous and induced expenditure?



15 According to the accelerator theory, what would cause investment in an economy to be lower than in the previous year?

A a lower marginal propensity to consume than in the previous year

B a lower marginal propensity to save than in the previous year

C a smaller fall in national income than occurred in the previous year

D a smaller rise in national income than occurred in the previous year

16 What is the best description of sustainable economic development?

A a long-term increase in the actual output of an economy

B a long-term increase in living standards without damage to the environment

C a long-term increase in the productive potential of an economy

D a long-term increase in the living standards of every member of society

17 What is **least** likely to increase the natural rate of unemployment?

A a decrease in information about vacancies

B a decrease in trade union power

C an increase in unemployment benefits

D an increase in immigration

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18 In Keynesian economic theory, what is the purpose of interest?

A to bring national income and expenditure into line

B to control the level of economic growth

C to create a balance between savings and investment

D to provide a reward for surrendering liquidity

19 The quantity theory of money is sometimes represented by the equation MV = PT.

Which statement is **not** correct?

A M is a measure of the total value of notes and coins in circulation in the country.

B P measures the average level of prices in the country.

C T stands for the quantity of real transactions during the year.

D V represents the number of times a unit of money is spent during a given time period.

20 A country is experiencing high unemployment, high inflation and a trade deficit.

Which policy is most likely to solve all of these problems?

A devaluation of the currency

B export subsidies

C lower interest rates

D tariffs on imports

21 The United States government has been using a policy of quantitative easing to increase economic growth.

What is the most likely effect of this policy on the internal and external value of the US dollar?

	internal value	external value
A	decreases	decreases
B	decreases	increases
C	increases	increases
D	increases	decreases

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22 When will a balance of payments deficit create the most demand-pull inflationary pressure in an economy with a floating exchange rate?

	price elasticity of demand for exports	unemployment rate
A	elastic	high
B	elastic	low
C	inelastic	high
D	inelastic	low

23 The table gives an economy's unemployment rate and inflation rate for a five-year period.

year	unemployment rate %	inflation rate %
1	7.6	2.6
2	6.2	1.6
3	5.8	1.8
4	5.9	2.0
5	5.8	2.0

Which change between consecutive years was in agreement with the Phillips curve analysis?

A year 1 to year 2

B year 2 to year 3

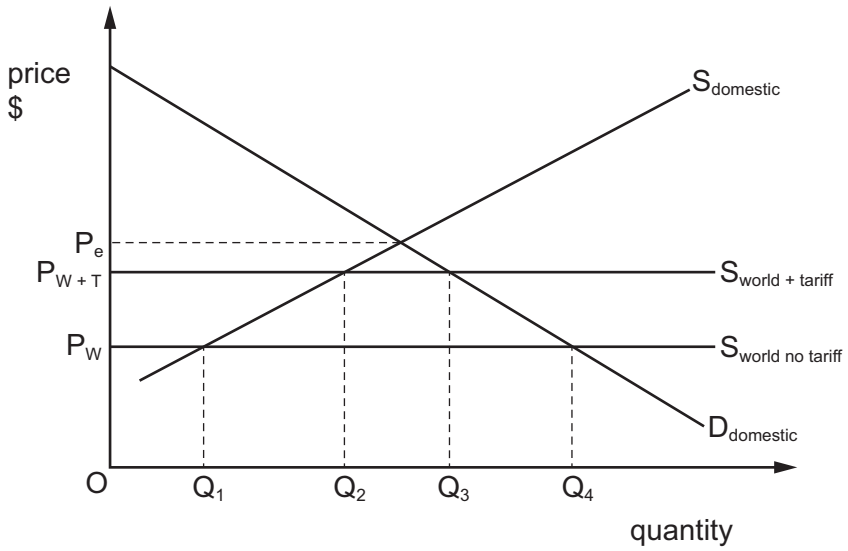
C year 3 to year 4

D year 4 to year 5

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24 The diagram shows the international trading position of a country that had tariffs on imports. The country removed the tariffs on imports.



What was the change in imports into this country resulting from the removal of the tariffs?

A Q_1Q_4

B $Q_1Q_4 – Q_1Q_2$

C $Q_1Q_4 – Q_1Q_3$

D $Q_1Q_4 – Q_2Q_3$

25 What would be the most effective long-term solution to a persistent deficit on the current account of the balance of payments?

A to increase borrowing from foreign financial institutions

B to persuade foreign firms to increase direct investment in the economy

C to revalue the currency to make it stronger on foreign exchange markets

D to reduce the reserves of foreign exchange to zero

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26 A country has a deficit on the current account of the balance of payments. The government can try to reduce this deficit by using either an expenditure-switching policy or an expenditure-reducing policy.

Under which conditions will an expenditure-reducing policy be more successful than an expenditure-switching policy?

	price elasticity of demand for imports	price elasticity of demand for exports	marginal propensity to import
A	0.2	0.2	0.1
B	0.2	0.2	0.4
C	0.6	0.2	0.1
D	0.6	0.6	0.4

27 The table gives the values for an economy's short-run and long-run elasticities of demand for exports and imports.

In which circumstance does depreciation lead to a J curve where the current account of the balance of payments worsens in the short run and improves in the long run?

	short-run elasticity of demand for exports	short-run elasticity of demand for imports	long-run elasticity of demand for exports	long-run elasticity of demand for imports
A	0.5	0.2	0.6	0.6
B	0.5	0.6	1.2	1.0
C	0.6	0.6	0.5	0.2
D	1.2	1.0	0.5	0.6

28 Which combination of characteristics is usually associated with a low-income country?

A high death rate and low levels of productivity

B high gross domestic product and low infant mortality

C low birth rate and a large proportion of income from primary industries

D low exports of capital and a large tertiary sector

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29 How would a depreciation of the currency of a low-income economy be most likely to affect its macroeconomic policy objectives?

	increasing the rate of growth	reducing the current account deficit	reducing the rate of unemployment
A	yes	no	yes
B	yes	yes	yes
C	yes	yes	no
D	no	yes	yes

30 What is **least** likely to improve as a result of the decision by high-income countries to increase their aid to low-income countries?

A exchange rate of low-income countries

B financial account of the balance of payments of low-income countries

C political relationships between high-income and low-income countries

D reserves of foreign currencies held by low-income countries

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Surname	StemUp Model Solution
Answer booklet	Write the question number in the left-hand margin at the start of each answer.

Question number

Paper 9708/34: Multiple choice answers

1	C	M to N: less X, more Y, so MU of X rises and MU of Y falls; on the same indifference curve total utility is unchanged.
2	B	A good with external benefits (not a demerit good) is under-consumed because consumers ignore the benefit to others.
3	B	With no property rights, users pay nothing for the resource, so it is overused and depleted.
4	B	Cost-benefit analysis approves a scheme when total social benefits exceed total social costs.
5	B	Price leadership needs a few interdependent firms, one of which sets the price: oligopoly.
6	B	Industry X: 3-firm ratio 32 + 26 + 22 = 80%, so a few firms dominate: oligopoly (Z is only 46%).
7	B	Social optimum is at W where MSC = MSB (point H); a per unit tax of HM shifts MPC up to MSC.
8	C	A nudge uses information to influence choices; showing how tax is spent encourages people to pay.
9	C	A lower Gini coefficient means the Lorenz curve is closer to the line of equality.
10	C	Banning substitutes such as patches makes it harder to quit, so more cigarettes are smoked.
11	B	Labour demand is the MRP curve, so its elasticity decides how far employment falls at the higher wage.
12	B	Rising employment means labour demand is increasing, so the union can win

Question number		
		higher wages without job losses.
13	D	b is the slope of the consumption function: the change in C from a change in Y, the MPC.
14	A	Autonomous spending is constant; induced spending rises with income, so the gap is greatest at the lowest income, A.
15	D	Investment depends on the change in income, so a smaller rise in income than last year means lower investment.
16	B	Sustainable development raises living standards over the long term without damaging the environment for the future.
17	B	Weaker unions reduce wages above equilibrium, so the natural rate falls rather than rises.
18	D	Keynes: interest is the reward for giving up liquidity (holding money).
19	A	M is the money supply, which includes bank deposits as well as notes and coins, so A is not correct.
20	B	Export subsidies cut export prices, raising exports and jobs and cutting the trade deficit without raising import prices.
21	A	QE increases the money supply, raising inflation (internal value falls) and lowering interest rates (external value falls).
22	B	Deficit ⇒ depreciation; elastic exports rise strongly, and with low unemployment there is no spare capacity, so prices rise.
23	B	Year 2 to 3: unemployment falls 6.2% to 5.8% while inflation rises 1.6% to 1.8%, the inverse Phillips curve relationship.
24	D	Imports with tariff = Q2Q3; without tariff = Q1Q4, so the change is Q1Q4 − Q2Q3.
25	B	FDI builds productive capacity and exports over the long run, so it tackles the cause of the deficit.
26	B	PEDX + PEDM = 0.4 < 1, so switching works poorly; a high MPM (0.4) means cutting spending cuts imports a lot.

Question number		
27	A	Short run 0.5 + 0.2 = 0.7 < 1, so the current account worsens; long run 0.6 + 0.6 = 1.2 > 1, so it then improves.
28	A	Low-income countries typically have high death rates and low productivity.
29	B	Cheaper exports raise net exports, so growth rises, the current account deficit falls and unemployment falls.
30	B	Aid is recorded as a transfer in the current or capital account, not the financial account.