Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/32**

Paper 3 A Level Multiple Choice **February/March 2023**

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.

This document has **12** pages. Any blank pages are indicated.

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1 Utility theory is based on the assumption of the 'rational consumer'.

What is necessary to act as a 'rational consumer'?

	access to complete information	addictive behaviour	choice is independent of other consumers
A	no	yes	yes
B	yes	no	no
C	yes	yes	no
D	yes	no	yes

2 The price of good S is $6 and the price of good T is $8. A consumer's marginal utility for each good is shown.

units	marginal utility of good S	marginal utility of good T
1	36	32
2	24	22
3	18	20
4	9	18
5	0	9

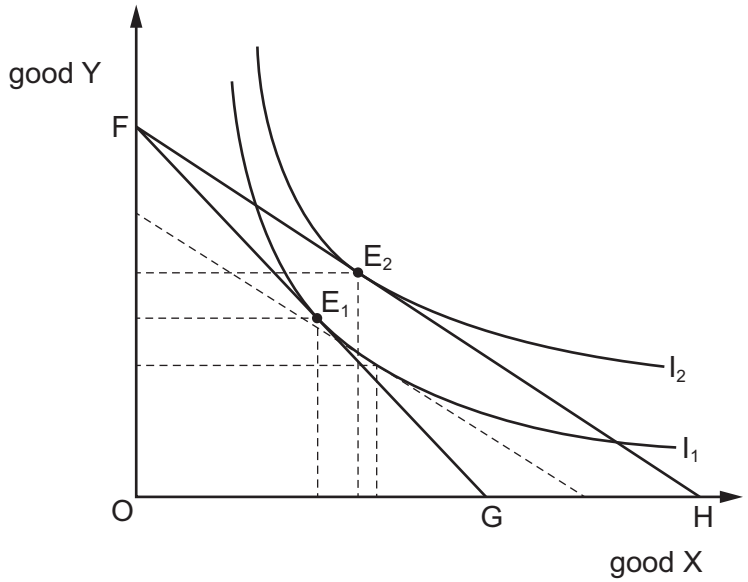
If this consumer wants to maximise total utility, which combination of goods would they consume?

	good S	good T
A	1	1
B	2	1
C	3	4
D	5	5

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3 The diagram shows the effect of a price change on an individual consumer's equilibrium, moving from E_1 to E_2.



What can be deduced from the diagram about the price change, the substitution effect and the income effect?

	price change	substitution effect	income effect
A	price of X falls	positive	positive
B	price of X falls	positive	negative
C	price of Y rises	negative	positive
D	price of Y rises	negative	negative

4 What is likely to help create dynamic efficiency?

A Entry barriers are reduced to increase competition in the market.

B Firms are legally bound to produce where price equals marginal cost.

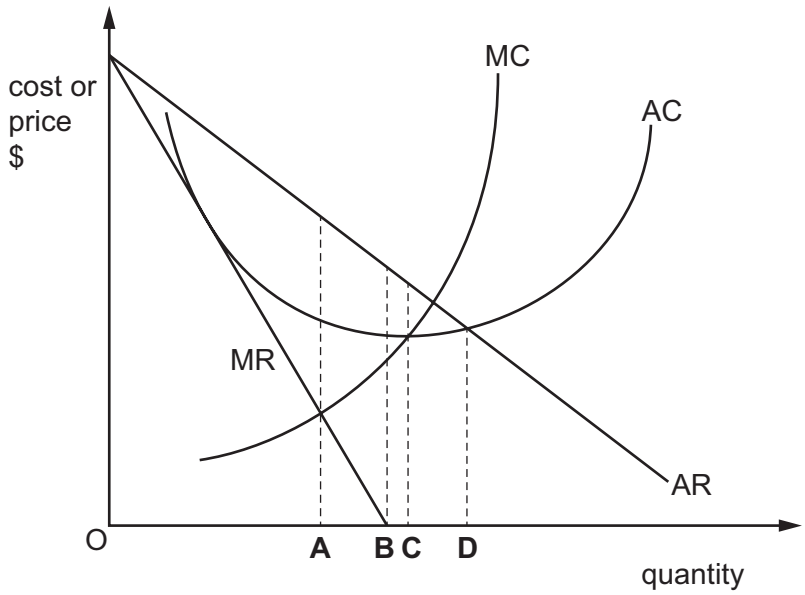
C Taxes on profits are raised to encourage firms to produce where price equals average cost.

D Taxes on retained profits are reduced to encourage investment in new technology.

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5 At which level of output is sales maximisation achieved consistent with earning normal profit?



6 What is achieved in monopolistic competition in the long run?

	allocative efficiency	supernormal profit
A	no	no
B	no	yes
C	yes	no
D	yes	yes

7 The world's largest pharmaceutical companies developed and distributed an effective vaccine to combat a dangerous virus.

What can be associated with this vaccine programme?

A demerit good and negative production externality

B imperfect competition and positive consumption externality

C perfect competition and negative consumption externality

D public good and negative production externality

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8 A landlord owns a house which is rented to tenants. The tenants are required to pay the electricity and water bills. The landlord is required to decorate and repair damage to the house and its gardens.

What is **not** an example of the principal-agent problem?

A The tenants forget to switch off a tap when filling a bath and water overflows, damaging the floor.

B The tenants have a party and their guests cause damage to the interior of the house.

C The tenants leave the lights and the TV on when they go out for an evening meal.

D The tenants park their car in the garden, damaging the grass and the surrounding hedge.

9 The result of a cost-benefit analysis of a proposed government road-building project is that there will be a positive net social benefit of $50 million.

Why might the government **not** proceed with the project?

A The project would not be profitable for a private firm.

B The project would cause negative externalities.

C There is limited capital available for government projects.

D There would be more who lost than gained.

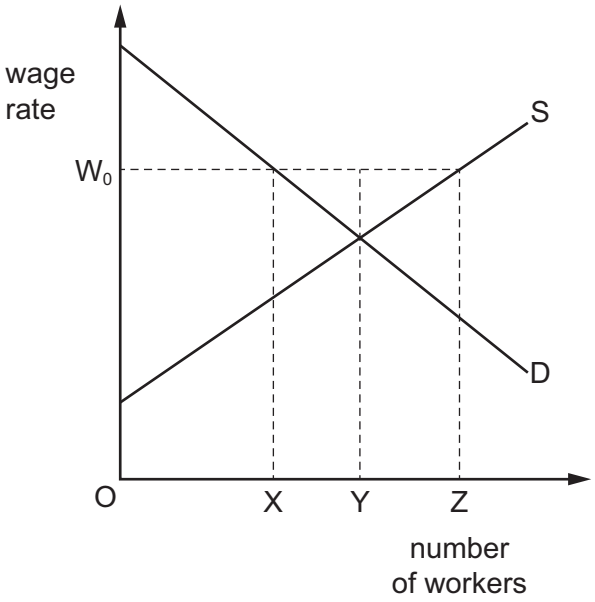
10 If the marginal cost of a good is lower than its price, allocative efficiency has not been achieved.

What is likely to remedy this situation?

	production of the good	price of the good
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

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11 The diagram shows an industry's demand for and supply of labour.



Initially, the labour market is in equilibrium. The government introduces a minimum wage of OW_0.

What will be the effect on the level of employment in the industry?

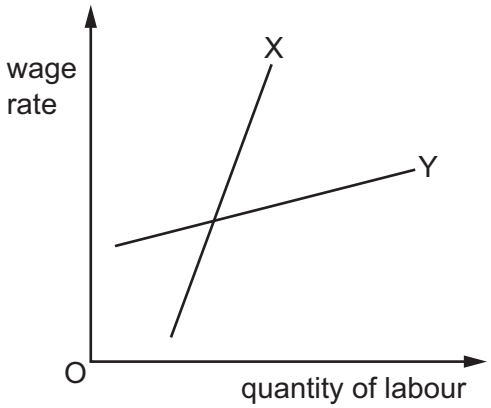
A a decrease equal to XY

B a decrease equal to XZ

C an increase equal to XY

D an increase equal to YZ

12 The diagram shows the supply curve of labour for two separate markets, X and Y.



What explains the difference in the gradients of the labour supply curves?

A Market X has a higher marginal revenue product per worker than Y.

B Market X has a higher percentage of its labour belonging to a trade union than Y.

C Market X has higher labour costs as a percentage of total costs than X.

D Market X has more specific skills and training requirements than Y.

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13 The table shows the main characteristics of employment in two occupations.

	occupation X	occupation Y
average annual wage	$100 000	$60 000
number of weeks of annual leave	5 weeks	10 weeks
average length of working week	48 hours	44 hours
job security	low	high
length of training course to obtain job qualification	1 year	2 years

What can definitely be deduced from the table?

A Those employed in occupation Y attach greater importance to job security.

B Those employed in occupation X attach less importance to leisure activities.

C There will be more competition for places on training courses to enter occupation X than occupation Y.

D Occupation Y has more non-pecuniary advantages than occupation X.

14 Which changes in direct and indirect tax are likely to increase the inequality in the distribution of income in a developed economy?

	direct taxes	indirect taxes
A	fall	fall
B	fall	rise
C	rise	fall
D	rise	remain constant

15 A government wishes to reduce the use of cars in cities.

Which policy should be used?

A a decrease in parking charges

B lowering tax on petrol (gasoline)

C restricting cycling

D subsidising public transport

16 In a country, the top 20% of earners pay 45% in income tax and 25% on sales taxes, and receive 5% in cash benefits.

What is the percentage of disposable income for this group?

A 30% **B** 55% **C** 60% **D** 80%

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17 Which combination of circumstances is most likely to lead to an increase in a country's budget deficit?

	total GDP	unemployment	government spending
A	decreases	rises	decreases
B	decreases	rises	no change
C	increases	falls	increases
D	increases	falls	no change

18 Which statement applies to a central bank and to a commercial bank?

		central bank	commercial bank
A	issues bank notes	yes	yes
B	lender of the last resort	yes	yes
C	maximises profit	no	yes
D	receives deposits directly from the government	no	yes

19 What is most likely to be the biggest contribution to sustainable economic growth in a developed economy?

A a movement of people from rural to urban areas

B an increase in technical training

C an increase in the size of the population

D rising consumer credit levels

20 Which policy is likely to increase unemployment?

A an increase in retraining facilities

B a significant increase in indirect taxes

C the imposition of selective import controls

D an increase in the public sector deficit

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21 What does *the accelerator principle* state?

A Consumption is a function of the rate of change of income.

B Income is a function of the rate of change of investment.

C Investment is a function of the rate of change of income.

D Investment is a function of the rate of interest.

22 Which government aim is **least** likely to be achieved using macroeconomic monetary policy measures?

A low unemployment level

B more equal income distribution

C stable exchange rate

D steady price level

23 A government adopts an expansionary fiscal policy to increase the economic growth rate.

Which other main macroeconomic aims is this policy most likely to help?

	full employment	stable price level	current account surplus
A	✓	✓	✗
B	✗	✓	✓
C	✗	✗	✓
D	✓	✗	✗

24 Country X decides to devalue its currency to eliminate a balance of payments deficit.

Why might devaluation have a positive effect on its macroeconomy?

A Competitive pricing of exports may create employment potential in country X.

B Foreign importers may depreciate their own currencies and reduce any advantage gained by country X.

C Inelastic demand for imported raw materials may lead to cost inflation in country X.

D Loss of import duties by country X may reduce government backing for trade promotion.

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25 Which cause of economic growth would involve the least cost for present and future generations of a country's population?

A increased exploitation of a country's mineral resources

B investment financed by borrowing from abroad

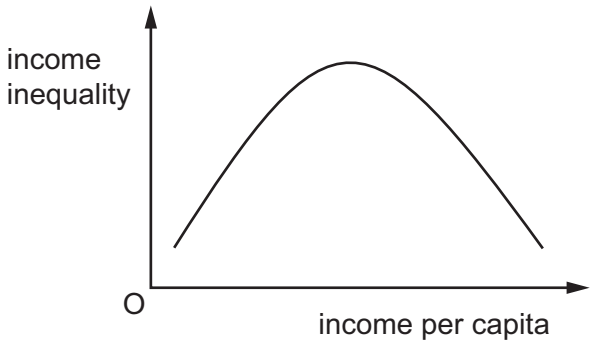
C investment financed by high rates of domestic savings

D technological innovations in production processes

26 Which additional components may be included when measuring economic development that are **not** included in measures of economic growth?

	changes in the distribution of GDP	level of poverty	real income per capita
A	no	no	yes
B	no	yes	no
C	yes	yes	no
D	yes	yes	yes

27 Which curve is shown in the diagram?



A Kuznets curve

B Laffer curve

C Lorenz curve

D Phillips curve

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28 Which indicator is **least** likely to be used when measuring the comparative economic development of an economy?

A mean years of schooling

B average life expectancy at birth

C level of real GNP per head

D size of population

29 What is an example of an expenditure-switching policy?

A an increase in income tax rates

B an increase in interest rates

C an increase in tariff rates

D an increase in the supply of money

30 Labour from low-income countries often migrates to high-income countries and finds jobs.

How would such a movement of labour be likely to affect the economic growth and the pressure on wage rises in the high-income country?

	economic growth	pressure on wage rises
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

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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	D	A rational consumer has complete information, is not driven by addictive behaviour and makes choices independently of other consumers.
2	B	MU ÷ P: 2nd unit of S = 24 ÷ 6 = 4 and 1st unit of T = 32 ÷ 8 = 4, so MU/P is equal for both goods at 2 S and 1 T.
3	B	The budget line pivots from FG to FH, so the price of X falls. Substitution effect raises X (positive) but the income effect cuts X slightly (negative), so X is inferior.
4	D	Lower taxes on retained profits leave more funds for investment in new technology and innovation over time.
5	D	Sales are maximised subject to normal profit where AR = AC, which is the highest output with no loss: D.
6	A	In the long run price = AC (normal profit only), but price is above MC, so it is not allocatively efficient.
7	B	A few large drug firms dominate (imperfect competition) and vaccination protects third parties from infection (positive consumption externality).
8	C	The tenants pay their own electricity bill, so leaving lights on costs them, not the landlord: no principal-agent problem.
9	C	With limited capital the government must use it where the net social benefit is greatest, so this project may lose out to others (opportunity cost).
10	C	P > MC means too little is produced; raising output moves down the demand curve, so price falls until P = MC.
11	A	At W0 the demand for labour falls from OY (old equilibrium) to OX, so employment falls by XY.

Question number		
12	D	Specific skills and long training mean few workers can enter, so labour supply to X is inelastic (steep).
13	D	Y has twice the annual leave, a shorter week and higher job security: more non-pecuniary benefits than X.
14	B	Lower direct (progressive) taxes help high earners; higher indirect (regressive) taxes hit the poor most, so inequality rises.
15	D	Subsidies make public transport cheaper, so commuters switch to buses and trains, a substitute for cars.
16	C	Disposable income = gross income − direct (income) tax + cash benefits = 100 − 45 + 5 = 60%. Sales taxes are paid out of disposable income.
17	B	Falling GDP and rising unemployment cut tax revenue and raise benefit spending, so the deficit widens even with no change in G.
18	C	Commercial banks aim to maximise profit; a central bank serves the public interest, not profit.
19	B	Technical training raises labour productivity and the economy's productive capacity (LRAS) in a lasting way.
20	B	A big rise in indirect taxes raises prices and reduces real incomes and AD, so output falls and unemployment rises.
21	C	Accelerator: the level of induced investment depends on the rate of change of national income (output).
22	B	Interest rates and money supply affect AD and prices, not the distribution of income, which needs fiscal policy.
23	D	Higher AD raises output and jobs (full employment helped), but demand-pull inflation and more imports harm price stability and the current account.
24	A	Devaluation makes exports cheaper abroad, so export demand and output rise, creating jobs in country X.
25	D	Technology raises productivity without using up finite resources or creating debt, so cost to present and future generations is least.

Question number		
26	C	Development measures add the distribution of income and poverty; real income per head is already used to measure growth.
27	A	Kuznets curve: inequality first rises then falls as income per capita grows (inverted U).
28	D	HDI uses schooling, life expectancy and real GNI per head; population size alone says nothing about development.
29	C	A higher tariff raises import prices, switching spending from imports to domestic goods.
30	C	Migrants increase the labour force so potential output and growth rise, and the extra labour supply reduces wage pressure.