Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/32**

Paper 3 A Level Multiple Choice **February/March 2024**

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.

© UCLES 2024

stemup.co.uk

1 A person buys two pairs of socks.

What does the purchase of the second pair of socks lead to?

A a decrease in marginal productivity

B a decrease in marginal utility

C an increase in marginal productivity

D an increase in marginal utility

2 What does an indifference curve show?

A the amount of two products achievable with given income and prices

B the different combinations of two goods that give a consumer equal utility

C the income available to buy the two goods

D the rate at which marginal utility changes as consumption changes

3 The table shows the total amount consumers are willing to pay for different quantities of good X and the total external benefits that arise from the consumption of X.

quantity of good X (000 units)	consumers' willingness to pay ($000)	total external benefits ($000)
1	100	20
2	180	38
3	240	54
4	280	68
5	300	80

What is the value of the marginal social benefit when 5000 units are consumed?

A $12 000 **B** $32 000 **C** $80 000 **D** $380 000

© UCLES 2024

stemup.co.uk

4 The statement and the table provide information about a production function.

> The production function represents the amount of .....1..... obtainable from each combination of .....2..... and can be used to give information about .....3..... .

Which words correctly complete gaps 1, 2 and 3?

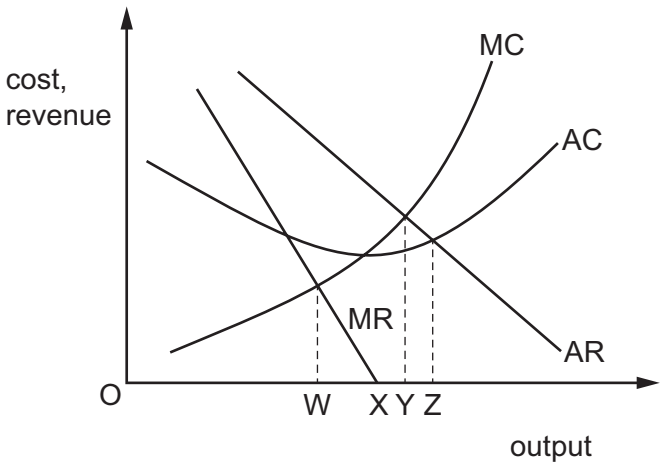
	1	2	3
A	demand	labour	returns to scale
B	demand	labour	normal profit
C	output	inputs	returns to scale
D	output	inputs	supernormal profit

5 Two firms selling the same type of product find it more efficient to merge.

Which combination describes how the merged firm's average costs of production and demand curve are expected to change?

	average costs	demand curve
A	fall	more elastic
B	fall	more inelastic
C	rise	more elastic
D	rise	more inelastic

6 The diagram shows the costs and revenues of a firm operating in an imperfect market.



The firm is currently producing at the profit maximising level of output. It wishes to produce at the sales maximising level of output.

What would be the change in its output?

A OW to OX **B** OW to OY **C** OW to OZ **D** OY to OZ

stemup.co.uk

7 In which market structure is dynamic efficiency **least** likely to occur?

A oligopoly

B monopolistic competition

C monopoly

D perfectly competitive

8 Which type of employment contract is most likely to overcome the principal agent problem?

A increasing monthly salaries of waiters in a restaurant to decrease their dependence on tips from customers

B linking workers' pay with the profits of the firm to motivate them to raise the profitability of the firm

C making full fee payment in advance to a lawyer to motivate him to prepare a legal case well

D offering permanent contracts to give workers job security

9 Company R manufactures steel. Company S produces ships. Company T operates oil tankers. Company V operates cruise liners.

Which statement is correct?

A If R takes over S, this is an example of forwards vertical integration.

B If S takes over V, this is an example of backwards vertical integration.

C If T takes over S, this is an example of diversification.

D If V takes over S, this is an example of horizontal integration.

10 There are two firms in an industry. Firm X faces a choice. It can either act independently or work with its rival. If it acts independently its profit could be $900 a week but it could be only $400 a week depending on what its rival does. If it works with its rival the joint profit of the two firms together would be $1400, $700 each. It has no knowledge of what the rival's policy will be.

Which concept describes this situation?

A contestable market

B kinked demand curve

C principal agent problem

D prisoner's dilemma

© UCLES 2024

stemup.co.uk

11 A government wishes to use market forces to remove a negative externality in the consumption of a good.

Which policy is likely to be the most effective?

A It should provide information about the undesirable side-effects of the good.

B It should give producers a subsidy, to allow consumers to purchase the product more cheaply.

C It should impose an indirect tax on consumers, to reduce consumption to the socially efficient level.

D It should not interfere at all, to allow the free market to generate maximum efficiency.

12 A government decides to replace a private company with its own company to collect household waste.

Why could such action be justified?

A Waste collection is a public good.

B Costs of waste collection are bound to be lower if paid out of local taxes.

C Private companies are always less efficient than government companies.

D Private companies might put profits before customer needs.

13 What is a failure of government microeconomic intervention?

A An indirect tax equal to external costs is imposed on cigarettes and the demand falls.

B Limits are placed on a trade union's restrictions that increase labour mobility.

C Price controls on bread are removed which allow a free market to operate.

D Tariffs are imposed on imported goods which cause the Gini coefficient to increase.

14 What would shift the marginal revenue product curve for workers producing electric vehicles to the right?

A a decrease in the price of petrol vehicles

B a decrease in the productivity of electric vehicles workers

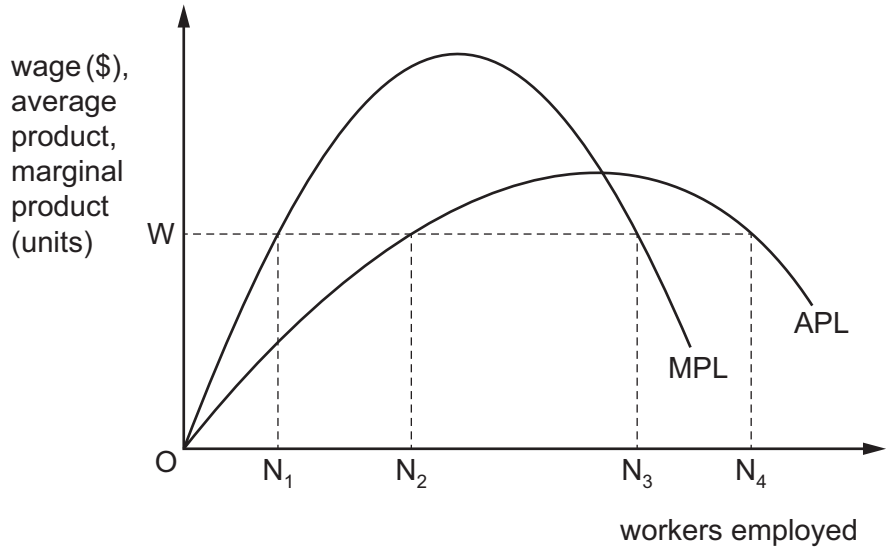
C an increase in the price of electric vehicles

D an increase in the wage rate of electric vehicles workers

© UCLES 2024

stemup.co.uk

15 The diagram shows a perfectly competitive firm's average product of labour (APL) and marginal product of labour (MPL) curves.



How many workers will the firm employ at a wage of W?

A ON_1 **B** ON_2 **C** ON_3 **D** ON_4

16 Which change is likely to result in a **decrease** in the demand for money?

A a decrease in the use of credit cards by consumers

B a switch from monthly to weekly payments of wages

C a decrease in interest rates

D an increase in the perceived risks involved in holding government bonds

17 Which combination of factors is most likely to lead to a decrease in structural unemployment?

A a fall in inflation and an increase in lending for low income households

B a fall in real wages and an increase in subsidies for technological improvements

C an increase in tariffs and lower taxes for new businesses

D the introduction of a national minimum wage and better working conditions

18 Why might country X have a higher natural rate of unemployment than country Y?

A There is a higher level of trade unionisation in X.

B There is more training and education in X.

C There are greater incentives to find work in X.

D There is a higher level of job vacancy information in X.

© UCLES 2024

stemup.co.uk

19 Over the period of a year, nominal national income increased by 2%, inflation was 3% and population increased by 1%.

Which statement is correct?

A Real income decreased by 2% per head.

B Real income increased by 1% per head.

C Real income increased by 4% per head.

D There was no change in real income per head.

20 What is likely to be the most effective policy to reduce inflation caused by a rapid rise in import prices?

A a decrease in the domestic rate of interest

B a decrease in the rate of income tax

C an increase in trade tariffs on imports

D a revaluation of the exchange rate

21 Which macroeconomic policy objective will **not** apply to a government in a closed economy?

A achieving a low and steady rate of inflation

B achieving a more equal income distribution

C achieving a surplus on the balance of payments

D achieving a sustainable rate of economic growth

22 A government increases its budget deficit to spend money on infrastructure development. It finances this by printing money.

How is this policy likely to affect the government's main macroeconomic policy objectives?

	higher economic growth	lower unemployment	lower inflation
A	less likely	less likely	more likely
B	less likely	more likely	less likely
C	more likely	more likely	less likely
D	more likely	more likely	more likely

© UCLES 2024

stemup.co.uk

23 The government increases interest rates in order to reduce the rate of inflation.

What will also result from this action?

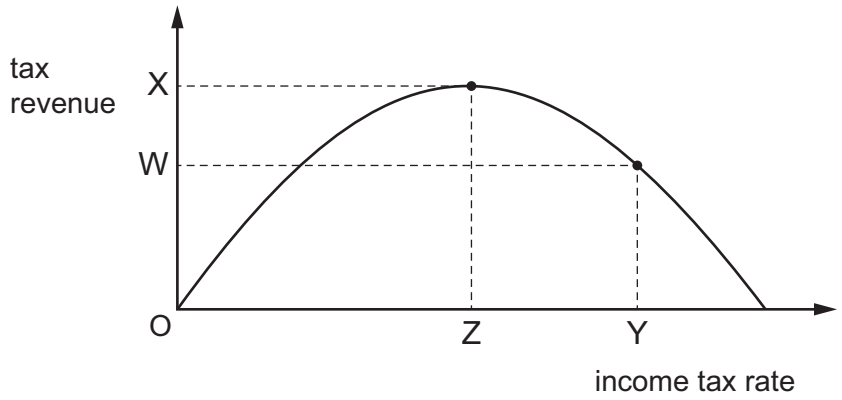
A a depreciation of the country's currency

B a fall in the level of savings

C a reduction in economic growth

D a reduction in unemployment

24 The diagram shows the relationship between the income tax rate and tax revenue.



Which statement is correct?

A A tax rate cut from Y to Z will cause tax revenue to decrease.

B At tax rates below Z a tax rate cut will cause tax revenue to increase.

C The greater the rate of tax beyond Z, the smaller will be the tax revenue generated.

D Tax revenue will always increase as the rate of income tax increases.

25 In which situation is devaluation of the currency most likely to cause inflation?

A Excess capacity is available.

B Import tariffs are reduced.

C Local substitutes of imported raw materials are unavailable.

D The demand for exports is price inelastic.

© UCLES 2024

stemup.co.uk

26 A country imports most of the raw materials used as factor inputs.

Which policy is most likely to control cost-push inflation?

A an appreciation of the exchange rate

B an increase in the rate of income tax

C an increase in the rate of interest

D an increase in the rate of sales tax

27 Germany, one of the world's strongest trading nations, achieved a surplus on current account of the balance of payments in 2021–2022.

Which income flow would **not** have been included in the calculation of Germany's current account?

A Declining sales of German cars for export overseas.

B Falling earnings of foreign exchange from visitors to Germany.

C Increasing transfers of aid to less developed countries.

D Investment in a natural gas pipeline link to its main foreign supplier.

28 A country maintains its foreign exchange rate against the United States dollar, within a narrow but changing band.

What is this type of exchange rate?

A fixed

B floating

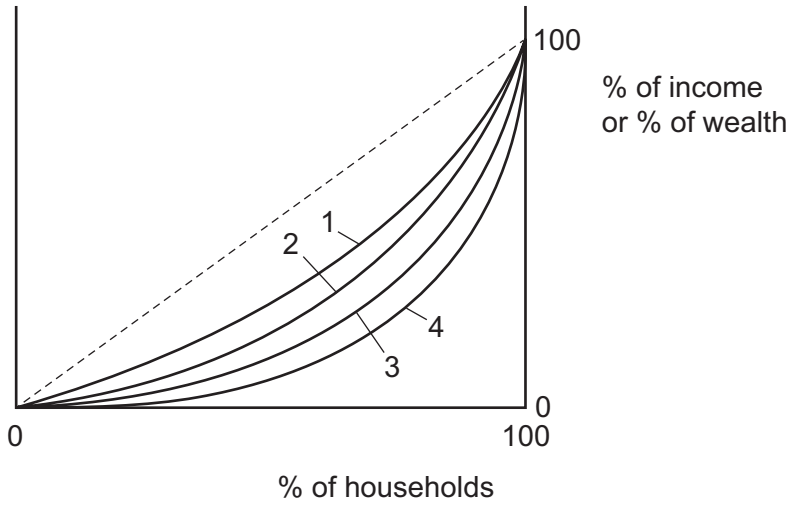
C managed float

D trade-weighted

© UCLES 2024

stemup.co.uk

29 The Lorenz curves in the diagram show different distributions of income and of wealth.



At first, income in a country is more equally distributed than wealth.

In a period, the distribution of income becomes more unequal but the distribution of wealth becomes more equal.

Which movement would show the effects of these changes on the distribution of income and wealth within the country?

	distribution of income	distribution of wealth
A	shift from curve 1 to curve 2	shift from curve 4 to curve 3
B	shift from curve 2 to curve 1	shift from curve 3 to curve 4
C	shift from curve 3 to curve 4	shift from curve 2 to curve 1
D	shift from curve 4 to curve 3	shift from curve 1 to curve 2

30 What is likely to happen in a developing country as it becomes more developed?

A A lower percentage of people will go to university.

B Average life expectancy will rise.

C The rate of population growth will increase.

D The tertiary sector will decline in importance.

© UCLES 2024

stemup.co.uk

BLANK PAGE

© UCLES 2024

stemup.co.uk

BLANK PAGE

Permission to reproduce items where third-party owned material protected by copyright is included has been sought and cleared where possible. Every reasonable effort has been made by the publisher (UCLES) to trace copyright holders, but if any items requiring clearance have unwittingly been included, the publisher will be pleased to make amends at the earliest possible opportunity.

To avoid the issue of disclosure of answer-related information to candidates, all copyright acknowledgements are reproduced online in the Cambridge Assessment International Education Copyright Acknowledgements Booklet. This is produced for each series of examinations and is freely available to download at www.cambridgeinternational.org after the live examination series.

Cambridge Assessment International Education is part of Cambridge Assessment. Cambridge Assessment is the brand name of the University of Cambridge Local Examinations Syndicate (UCLES), which is a department of the University of Cambridge.

© UCLES 2024

stemup.co.uk

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	B	Diminishing marginal utility: the second pair adds less extra satisfaction than the first.
2	B	An indifference curve joins all combinations of two goods giving the consumer the same total utility.
3	B	MSB of 5th thousand units = MPB + MEB = (300 – 280) + (80 – 68) = 20 + 12 = $32 000.
4	C	A production function shows the output obtainable from each combination of inputs, so it shows returns to scale.
5	B	The merger gives economies of scale, so AC falls, and with fewer rivals (fewer substitutes) demand becomes more inelastic.
6	C	Profit is maximised where MC = MR (OW); sales are maximised subject to normal profit where AR = AC (OZ).
7	D	Perfectly competitive firms earn only normal profit in the long run and have perfect information, so they cannot fund or protect innovation.
8	B	Profit-related pay aligns the workers' (agents') interests with the owners' (principals') aim of higher profit.
9	A	Steel is an input into ships, so R taking over S is a move forward to the next stage of production: forward vertical integration.
10	D	Each firm chooses without knowing the rival's choice and cooperation ($700 each) beats the risk of $400: the prisoner's dilemma (game theory).
11	C	An indirect tax equal to the external cost raises price, so consumers cut consumption to the socially optimal level through the price mechanism.
12	D	A profit-maximising firm may cut service quality or charge more, so public

Question number		
		provision can put customer needs first.
13	D	Tariffs raising the Gini coefficient (more inequality) is an unintended harmful outcome: government failure.
14	C	MRP = MPP × MR (price). A higher price of electric vehicles raises MRP at every level of employment, so MRP shifts right.
15	C	A perfectly competitive firm hires where W = MPL on the falling part of MPL below APL, which is ON3.
16	B	Weekly pay means workers need to hold smaller average money balances for transactions, so demand for money falls.
17	C	Tariffs protect domestic industries and lower taxes encourage new firms to set up, creating jobs for workers left by declining industries.
18	A	Strong trade unions push wages above the market-clearing level and reduce labour market flexibility, raising the natural rate.
19	A	Real income per head ≈ 2% − 3% − 1% = −2%, so real income per head decreased by about 2%.
20	D	A revaluation makes imports cheaper in domestic currency, directly reducing imported inflation.
21	C	A closed economy does not trade, so it has no balance of payments to target.
22	C	Extra spending raises AD, so growth and jobs are more likely, but printing money expands the money supply, so inflation is less likely to fall.
23	C	Higher interest rates raise borrowing costs, cutting consumption and investment, so AD and economic growth fall.
24	C	Laffer curve: revenue peaks at rate 2, so beyond 2 higher rates reduce work incentives and the tax base, and revenue falls.
25	C	Devaluation raises import prices; with no local substitutes for imported raw materials, firms' costs rise, causing cost-push inflation.
26	A	An appreciation makes imported raw materials cheaper in domestic currency, lowering firms' costs.

Question number		
27	D	Investment in a pipeline is a capital/financial flow, recorded in the financial account, not the current account.
28	C	The rate is allowed to move within a band that the authorities adjust and manage by intervention: a managed float.
29	A	Income is nearer the diagonal (curves 1, 2) than wealth (3, 4); income moves away from the line (1 to 2), wealth moves towards it (4 to 3).
30	B	Development brings better healthcare, nutrition and sanitation, so average life expectancy rises.