Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/32**

Paper 3 A Level Multiple Choice **February/March 2025**

1 hour 15 minutes

You must answer on the multiple choice answer sheet.

8420056437

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 Which cost will continually decrease as a firm's output increases in the short run?

A average cost

B average fixed cost

C average variable cost

D marginal cost

2 What is an example of market failure?

A a firm incurring a loss by selling goods at prices below the average cost

B a guaranteed price that results in the accumulation of unsold stocks

C low income earners being unable to buy high-priced goods

D under-provision of a socially desirable good

3 What is likely to prevent the development of an effective cartel in an industry?

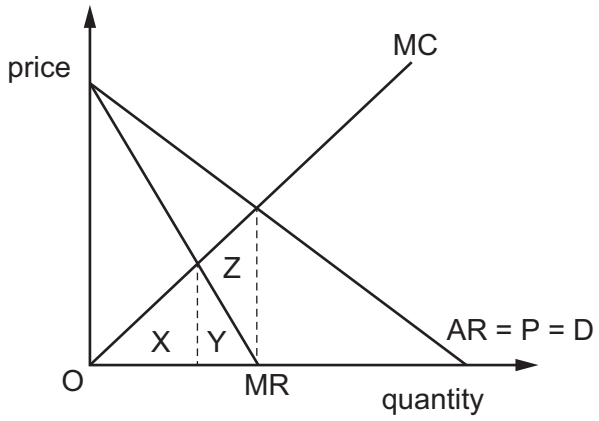
A a high concentration ratio

B a limit-pricing policy

C high fixed costs

D low barriers to entry

4 The diagram shows a firm's cost and revenue curves. The firm changes its objective from profit maximising to revenue maximisation.



Which area on the diagram will show the increase in total revenue?

A X + Y + Z **B** Y **C** Y + Z **D** Z

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5 Which statement about the downward sloping demand curve of an inferior good is correct?

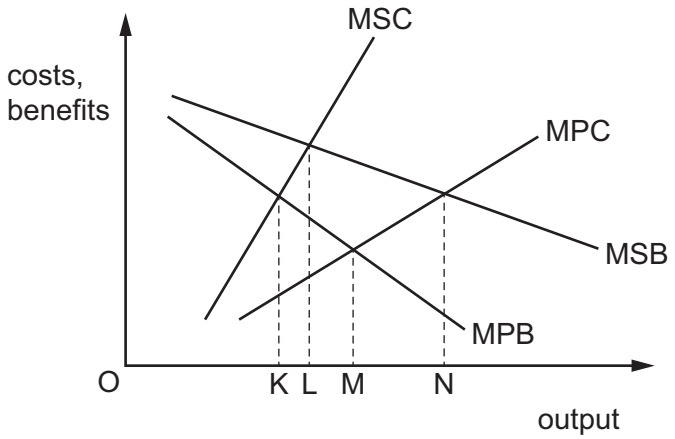
A Negative income effect and substitution effect move in opposite directions, leading to a steeper demand curve.

B Negative income effect and substitution effect move in the same direction, leading to a flatter demand curve.

C Positive income effect and substitution effect move in opposite directions, leading to a steeper demand curve.

D Positive income effect and substitution effect move in the same direction, leading to a flatter demand curve.

6 The diagram shows the private and social costs and benefits of production in a free market that result in market failure.



Which change in output would be necessary to overcome this market failure?

A from K to M

B from M to N

C from M to L

D from N to L

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7 A profit-maximising monopoly makes an abnormal profit and decides to reinvest some of this profit to improve its capital stock.

What are the most likely outcomes from this change?

	allocative efficiency	dynamic efficiency	productive efficiency
A	improves	improves	improves
B	unchanged	improves	improves
C	improves	unchanged	unchanged
D	unchanged	unchanged	improves

8 What is **not** an example of government failure?

A decreased maximum price causing producers to leave the market

B higher guaranteed price encouraging suppliers to overproduce

C increased minimum wage leading to employers dismissing workers

D increased subsidies encouraging the consumption of a socially desirable product

9 When does a more equal distribution of income occur?

A when a country's income tax system is made more progressive

B when someone is made better off without making someone else worse off

C when the best use is made of scarce resources

D when there is an increase in the Gini coefficient

10 What is **not** a reason for imposing a tax on producers based on the amount of pollution caused in the production process?

A Firms have a financial incentive to reduce pollution.

B It is relatively hard to administer and monitor this tax scheme.

C Some firms cause less pollution than others.

D Taxes on pollution reduce negative production externalities.

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11 A government introduced a tax on soft drinks containing sugar. It was forecast that the tax would raise £520m per year for the government. However, the tax received was £240m.

What is the most likely reason why the tax collected was lower than forecast?

A a specific tax instead of an ad valorem tax was introduced

B fewer drinks than originally forecast contained sugar

C most retailers did not increase the price of soft drinks

D the demand for soft drinks was price inelastic

12 A government's aim is to reduce real wage rates.

Which policy should be used to achieve this aim?

A Award public sector workers pay increases below the rate of inflation.

B Encourage private sector pay awards to be in line with company profits.

C Introduce a minimum hourly wage for non-unionised, low-paid workers.

D Remove any restrictions on trade unions to bargain for wages.

13 How is marginal revenue product calculated?

A marginal physical product × marginal revenue

B marginal physical product ÷ price

C total physical product × marginal cost

D total physical product ÷ marginal cost

14 A teacher currently earns $30 000. She would be willing to continue in that teaching job, provided she earned at least $25 000. Also, she would prefer to remain a teacher than change to her next best alternative employment as an accountant where she could earn $40 000.

Which statement is correct?

A Her economic rent as a teacher is $5000.

B Her economic rent as an accountant is $10 000.

C Her transfer earnings as a teacher are $30 000.

D Her transfer earnings as an accountant are $15 000.

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15 What does the accelerator principle explain?

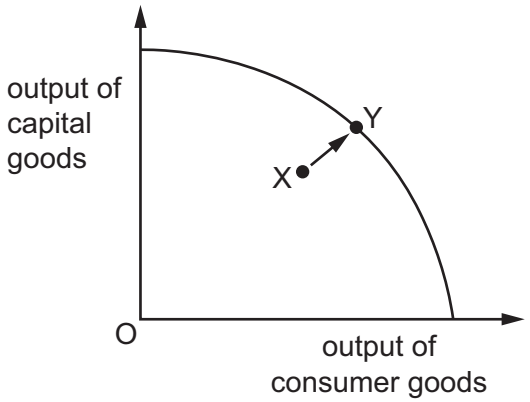
A how changes in consumption lead to changes in income

B how changes in income lead to changes in consumption

C how changes in income lead to changes in investment

D how changes in investment lead to changes in income

16 The diagram shows an economy's production possibility curve.



What causes a movement from point X to point Y?

A a positive output gap

B a recession

C actual economic growth

D potential economic growth

17 In the quantity theory of money equation, MV = PT, V is defined as the income velocity of circulation.

Which change would tend to reduce the value of V?

A a move to monthly rather than weekly salary payments by firms

B an increase in interest rates

C an increase in the use of cash machines to reduce money balances held

D a decrease in the use of credit cards by individuals

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18 What is likely to improve the occupational mobility of labour?

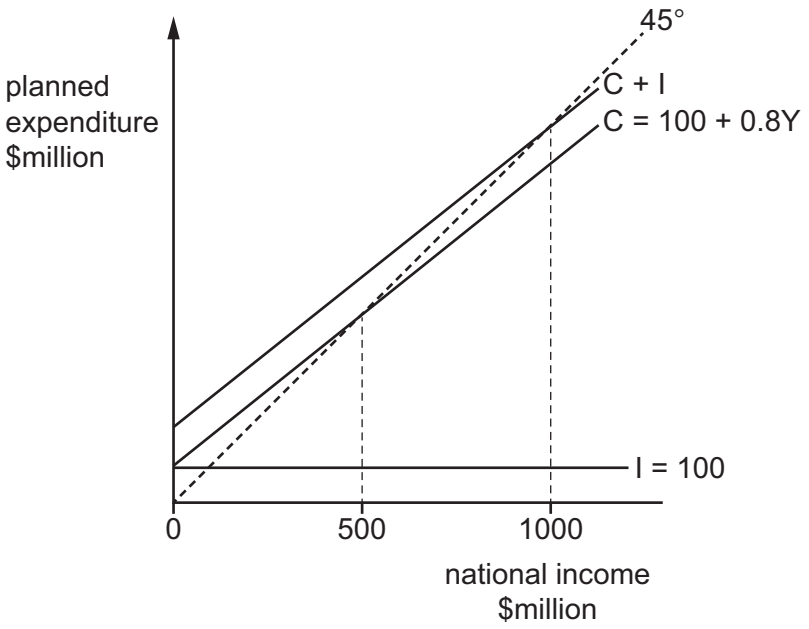
A a decrease in income tax that increases aggregate demand

B a decrease in unemployment benefit

C an increase in retraining schemes for the unemployed

D more advertising of employment vacancies in the economy

19 The diagram shows a closed economy with no government. It is in initial equilibrium when the national income is $1000 million.



If the full employment national income occurs at $800 million, what is the value of the inflationary gap?

A $40 million **B** $160 million **C** $260 million **D** $840 million

20 If prices increase in country X but stay the same in country Y, what will be the most likely impact on the internal and external value of money in country X?

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

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21 Which policy may increase economic growth without causing inflation?

A giving subsidies to producers

B increasing government spending

C lowering direct taxes

D lowering interest rates

22 The current account on the balance of payments moves into deficit.

What is a possible reason for this?

A a decrease in tax revenue

B export-led growth

C repayment of debts to other countries

D the import of new technology

23 Which policy would **not** lead to an increase in the value of a country's currency?

A an increase in domestic inflation

B an increase in domestic interest rates

C an increase in incomes abroad

D an increase in tourists visiting the country

24 In an economy with unemployed resources the marginal propensity to consume is 0.2. The government increases its budget deficit and finances it by selling bonds to the non-bank private sector.

What is the likely consequence of this?

A The currency will depreciate, increasing exports and reducing the trade deficit.

B The increase in real output will be limited as the value of the multiplier is low.

C The money supply will fall, leading to a reduction in aggregate demand.

D There will be a decrease in the rate of interest, causing demand-pull inflation.

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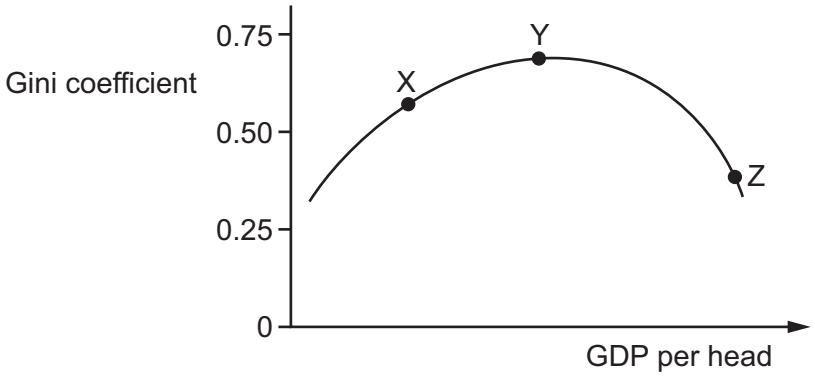
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25 Which components are included in the current account and financial account of the balance of payments?

	current account	financial account
A	official reserve assets and trade in goods	trade in services and transactions in official reserve assets
B	primary income and trade in goods	official reserve assets and secondary income
C	trade in goods and trade in services	foreign direct investment and secondary income
D	trade in services and secondary income	portfolio investment and official reserve assets

26 The graph plots the Gini coefficient and GDP per head for three countries, X, Y and Z.

What can be concluded from the graph?



A Average incomes are higher in country X than in country Z.

B Country X is the least developed country.

C Income is equally distributed in country Y.

D The distribution of income in country Y is more even than in country X.

27 What is **least** likely to lead to an increase in optimum population?

A an improvement in labour productivity

B an improvement in the quality of capital and technology

C an increase in birth rate and a fall in death rate

D an increase in the availability of natural resources

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28 What is **not** included as a weighted indicator of poverty in the Multidimensional Poverty Index (MPI)?

A cooking fuel

B electricity

C medication

D water

29 Which role is performed by the World Bank but **not** by the International Monetary Fund (IMF)?

A facilitating free trade among member countries

B providing assistance to member countries to plan fiscal policies

C providing bailout packages to countries facing external account challenges

D providing monetary assistance to member countries to build infrastructure

30 Some economists argue there is little evidence of the value of aid in improving economic development in less-developed countries.

Which situation supports this claim?

A Capacity to benefit from transfer of communications technology has increased.

B Investment in infrastructure has created transport links and port facilities.

C Over-reliance on technical assistance has impaired local initiatives and innovation.

D Projects for education and training have helped to enhance the supply side.

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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	B	Fixed costs are spread over more units as output rises, so AFC = TFC ÷ Q falls continuously.
2	D	Under-provision of a merit good means resources are misallocated: the free market fails to reach the social optimum.
3	D	Low barriers to entry let new firms enter and undercut the cartel price, so collusion cannot be sustained.
4	B	Output rises from MR = MC to MR = 0; the extra revenue is the area under MR between these two outputs, area Y.
5	A	For an inferior good the income effect is negative and works against the substitution effect, so the demand curve is steeper.
6	C	Free market output is where MPC = MPB (M); the social optimum is where MSC = MSB (L), so output must fall from M to L.
7	B	Better capital lowers costs (productive efficiency) and adds innovation (dynamic), but the monopolist still sets P > MC, so allocative is unchanged.
8	D	Subsidising a socially desirable (merit) good corrects under-consumption, so it improves resource allocation rather than causing failure.
9	A	A more progressive income tax takes a higher share of income from high earners, which narrows the income gap.
10	B	Being hard to administer and monitor is an argument against the tax, not a reason for imposing it.
11	B	If fewer drinks than expected contained sugar, the tax base was smaller, so revenue fell short of the forecast.
12	A	Pay rises below the inflation rate mean money wages buy less, so real wages

Question number		
		of public sector workers fall.
13	A	MRP = MPP × MR: the extra output from one more worker multiplied by the extra revenue per unit.
14	A	Transfer earnings as a teacher are $25000 (her minimum), so economic rent = $30000 − $25000 = $5000.
15	C	Accelerator: the level of investment depends on the rate of change of national income.
16	C	X lies inside the curve and Y on it, so the economy uses idle resources: actual growth, not a shift of the curve.
17	A	Paying salaries monthly means people hold larger money balances for longer, so each unit of money changes hands less often and V falls.
18	C	Retraining gives the unemployed new skills, so they can move between occupations more easily.
19	A	At Y = $800m, C + I = 100 + 0.8(800) + 100 = $840m, so the inflationary gap = 840 − 800 = $40m.
20	B	Higher prices cut what money buys at home (internal value falls); if demand for its exports is inelastic, export earnings and demand for the currency rise, so external value rises.
21	A	Subsidies cut producers' costs, shifting SRAS right, so real output rises while the price level does not rise.
22	D	Importing new technology raises import spending on goods, which can push the current account into deficit.
23	A	Domestic inflation makes exports less competitive and imports more attractive, so demand for the currency falls and its value falls.
24	B	With MPC = 0.2, the multiplier = 1 ÷ (1 − 0.2) = 1.25, so the extra deficit spending raises real output only a little.
25	D	Services and secondary income are current account items; portfolio investment and official reserve assets are in the financial account.

Question number		
26	B	X has the lowest GDP per head of the three countries, so it is the least developed by this measure.
27	C	More births and fewer deaths raise the actual population, not the optimum, which depends on resources, technology and productivity.
28	C	The MPI living-standard indicators include cooking fuel, electricity and water; medication is not one of the weighted indicators.
29	D	The World Bank lends for long-term development projects such as infrastructure; the IMF deals with balance of payments problems.
30	C	Dependence on foreign technical assistance has held back local initiative and innovation, so aid has done little for development.