Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/31**

Paper 3 A Level Multiple Choice **October/November 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.
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- Do **not** write on any bar codes.
- You may use a calculator.

INFORMATION

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- Each correct answer will score one mark.
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This document has **12** pages.

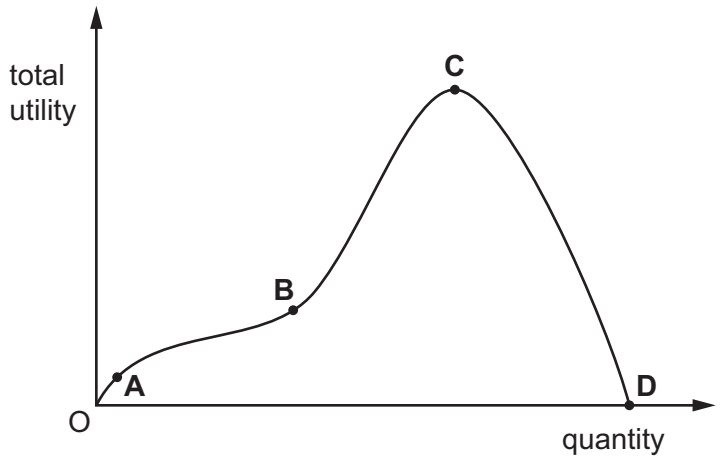
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1 The diagram shows a total utility curve for a consumer.

At which point does marginal utility equal zero?



2 What is a characteristic of an indifference curve?

A It will remain concave to the origin of the diagram.

B It will remain convex to the origin of the diagram.

C It can intersect other indifference curves at any point.

D The lower the indifference curve, the greater the satisfaction attainable.

3 A Belgian traffic study concluded that there would be significant benefits if 10% of car drivers switched to using motorcycles during peak traffic times.

Which result would be considered a cost of this change?

A reduced travel times

B reduced car emissions

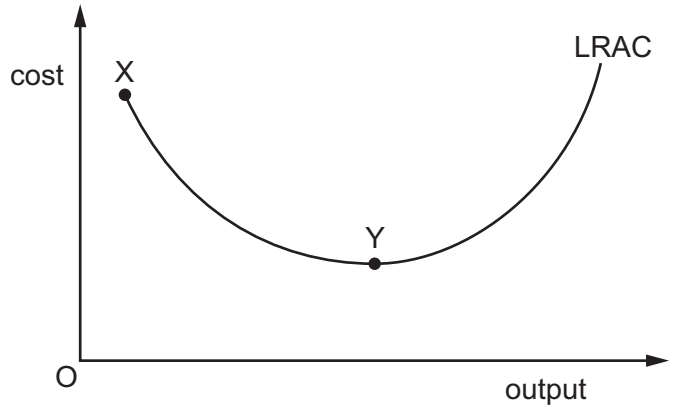
C reduced safety standards

D reduced traffic queues

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4 The diagram shows a firm's long-run average cost curve (LRAC).



What could explain the shape of the curve from X to Y?

A a decrease in total fixed cost

B increasing returns to scale

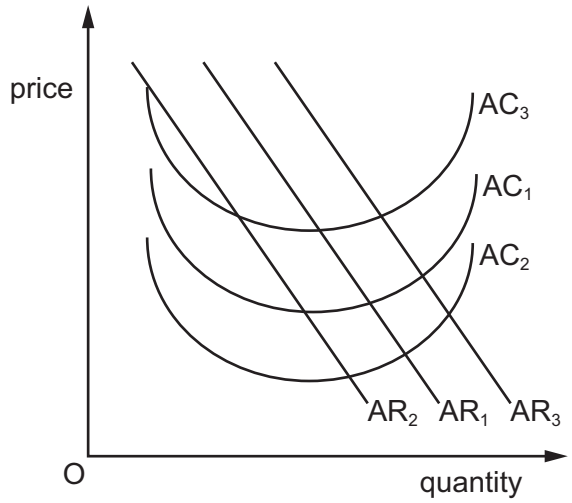
C internal diseconomies of scale

D more than one factor of production is variable

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5 The diagram shows the average revenue (AR) and average cost (AC) curves for a firm X that manufactures electronic goods.

Firm X then completes a takeover of firm Y that supplies its component parts making them cheaper. The original average revenue and average cost curves of firm X are AR_1 and AC_1.



What is the position of the average cost curve and the average revenue curve after the takeover?

	average cost	average revenue
A	AC_1	AR_3
B	AC_2	AR_1
C	AC_2	AR_3
D	AC_3	AR_2

6 LMN Ltd operates as a relatively small, family-owned producer in an industry dominated by a few large firms. Its product is unique so the owners are confident they will be able to sell enough to provide them with sufficient revenue to allow a minimum acceptable level of performance for the firm.

Other than survival, what is the most likely objective of LMN Ltd?

A profit maximising

B profit satisficing

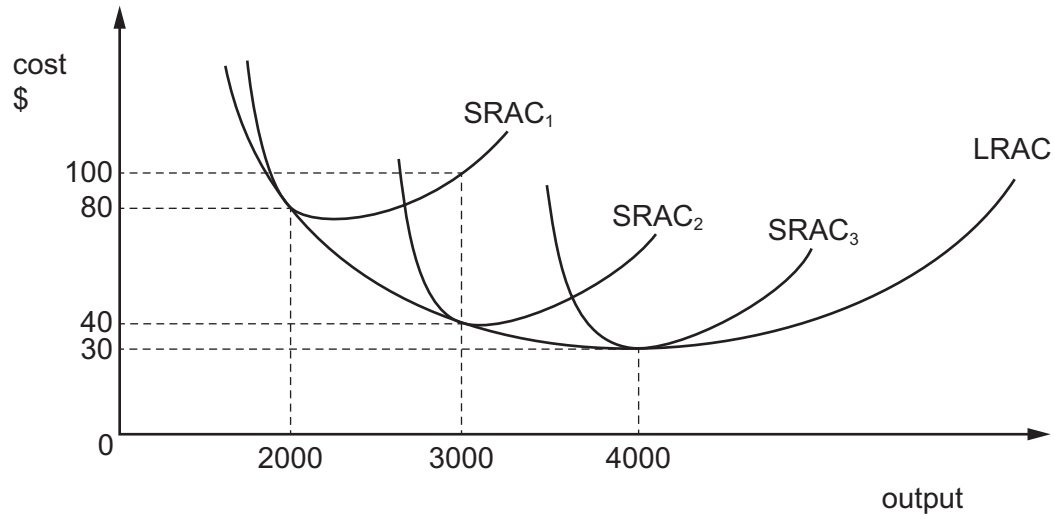
C revenue maximising

D sales maximising

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7 The diagram shows the short-run average cost, SRAC, and long-run average cost, LRAC, curves for a firm producing computers. It usually produces 2000 computers per week. An increase in demand requires the firm to produce 3000 computers per week.



How much will the average costs change in the long run if the firm makes a permanent decision to produce 3000 computers per week?

A $20 **B** $40 **C** $50 **D** $60

8 What is a characteristic of monopolistic competition?

A no barriers to entry

B identical products

C price takers

D small number of buyers and sellers

9 What is likely to have its cause in the separation of ownership and control in a firm?

A contestable markets

B diseconomies of scale

C principal-agent problem

D prisoner's dilemma

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10 Firms X and Y merge in a horizontal integration.

What must be true about the industry and the stage of production in which X and Y operate?

	industry	stage of production
A	different	different
B	different	same
C	same	different
D	same	same

11 Which government policy would **not** be classified as regulation?

A a ban on cocaine consumption

B compulsory wearing of seatbelts in cars

C licences for the extraction of water from rivers

D taxation of cigarettes

12 A government removes a subsidy on a rural school bus service.

What is the effect of this on the market for this bus service?

A Deadweight loss decreases.

B Private marginal costs increase.

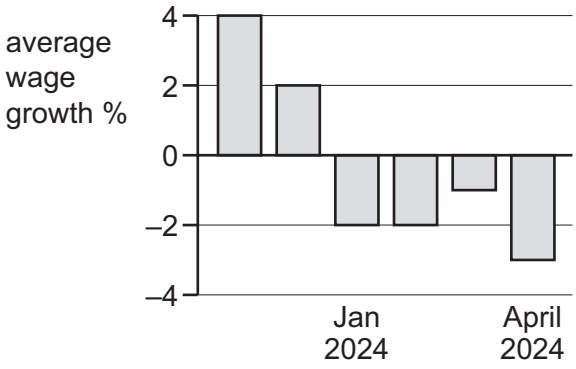
C Private marginal benefit decreases.

D Social marginal costs decrease.

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13 The graph shows the percentage growth in average earnings for an economy.



What is the most likely cause of the pattern shown in the graph?

A a decrease in the supply of labour

B a decrease in the interest rate

C an increase in productivity

D an increase in the size of the labour force

14 The table shows the output of chairs at a factory when different numbers of workers are employed.

number of workers	0	1	2	3	4	5
number of chairs produced	0	7	17	26	34	40

When will diminishing marginal returns to labour set in?

A when the second worker is employed

B when the third worker is employed

C when the fourth worker is employed

D when the fifth worker is employed

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15 In the diagram, D represents the long-run demand curve for labour in a firm operating in an imperfect market.

When there is a fall in the amount of capital invested per worker, the marginal revenue productivity of labour (MRP) curve shifts from MRP_1 to MRP_2.



How does this shift affect the amount of labour employed in the long run, when wages fall?

A It falls from L_3 to L_2.

B It increases from L_1 to L_2.

C It increases from L_2 to L_3.

D It remains the same at L_1.

16 Which statement about money is correct?

A It consists solely of deposits held by commercial banks.

B It functions as a medium of exchange.

C Its monetary value equals its production costs.

D It operates only when there is a double coincidence of wants.

17 In country X, unemployment is rising at the same time as the number of job vacancies is increasing.

What is the most likely reason for this?

A Economic growth is falling.

B Economic growth is rising.

C Geographical mobility of labour is rising.

D Occupational immobility of labour is rising.

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18 An increase in which variable affecting labour markets is most likely to reduce the natural rate of unemployment?

A the level of unemployment benefit

B the militancy of trade unions

C the national minimum wage

D the participation on training courses

19 A consumer has an income of $1000 per week. The consumer spends 80% of this on goods and services.

Following an increase in the consumer's income to $1200 per week, consumption increases to $900 per week.

Which statement is correct?

A The average propensity to consume does not change.

B The initial average propensity to consume is 5.

C The marginal propensity to consume is 0.5.

D The marginal propensity to consume is 2.

20 The table shows data about the population of a country.

total population	2 000 000
labour force	1 200 000
number of people employed	900 000
number of people unemployed	300 000

What is the rate of unemployment?

A 25% **B** 33% **C** 60% **D** 75%

21 What is **not** an aim of macroeconomic policy?

A economic development

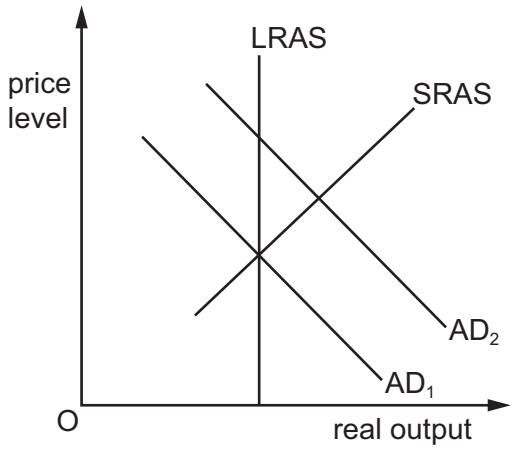
B exchange rate stability

C Pareto optimality

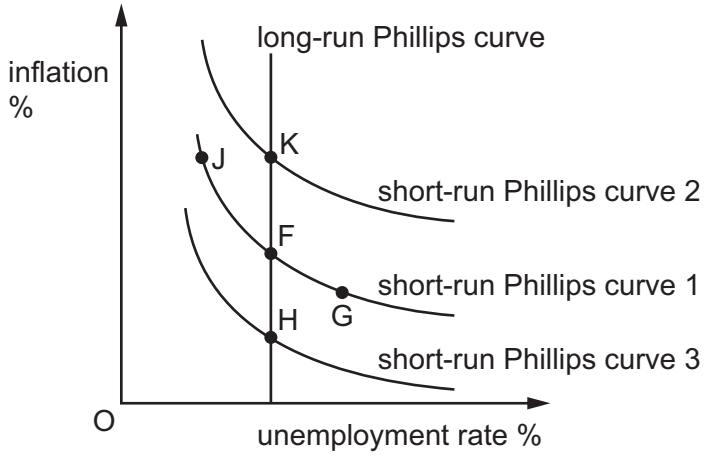
D satisfactory balance of payments

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22 The diagram shows an increase in aggregate demand (AD) from AD_1 to AD_2.



How can the subsequent impact on short-run and long-run macroeconomic equilibrium positions be shown using expectations-augmented Phillips curves?



A F to G to H

B F to G to K

C F to J to H

D F to J to K

23 How could high interest rates increase a country's rate of inflation?

A by increasing the current borrowing costs of business

B by increasing the current borrowing costs of government

C by increasing the foreign exchange rate of the currency

D by increasing the opportunity cost of spending

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24 What is most likely to influence subsequent increases in national income as a result of a government policy of reduced interest rates?

A marginal cost

B marginal efficiency of capital

C marginal product

D marginal utility

25 Which policy to reduce a current account deficit on the balance of payments could be described as an expenditure-switching policy?

A a decrease in government spending

B a decrease in the exchange rate of the country's currency

C an increase in domestic income taxes

D an increase in domestic interest rates

26 Which components are included in the financial account of the balance of payments?

	foreign direct investment	interest, profits and dividends
A	✓	✗
B	✗	✗
C	✓	✓
D	✗	✓

key

✓ = included

✗ = not included

27 It is often argued that the UN Human Development Index (HDI) is a better indicator of economic development than income per capita because it adjusts for

A average hours worked by the population.

B environmental pollution.

C inequality in income distribution.

D life expectancy at birth.

28 Some conditions for providing foreign aid to low-income countries can be restrictive.

Which kind of aid fits this description?

A food aid in the event of natural catastrophes such as severe drought

B grants that are tied to purchasing donor country goods

C loans that are repaid over a long period at a low rate of interest

D technical assistance using highly skilled worker transfers to provide support

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29 What is most likely to cause the living standards of a country to rise?

A an increase in the number of doctors

B an increase in the gold reserves

C an increase in the number of people per house

D an increase in the money supply

30 Globalisation means that goods and services, capital and labour are traded on a worldwide basis.

Which combination illustrates that each trade partner can benefit when a low-income country trades with a high-income country?

	the low-income country	the high-income country
A	contracts are not always fulfilled due to corrupt practices	agrees to increase investment in the infrastructure of low-income countries
B	experiences liquidity problems that restrict investment	transfers short-term government loans repayable at high interest rates
C	multinational companies repatriate profits from mining of rare minerals for export	receives supplies at high prices from multinationals to meet excess demands for rare metals
D	supplies seasonal labour to overcome shortages for picking fruit crops	repatriates wages to families of seasonal workers

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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	C	Marginal utility is zero where total utility is at its maximum (the peak of the curve), point C.
2	B	Diminishing marginal rate of substitution makes indifference curves convex to the origin.
3	C	More motorcycles in traffic means a higher accident risk, so reduced safety is a cost; A, B and D are benefits.
4	B	LRAC falls from X to Y because output rises proportionally more than inputs: increasing returns to scale.
5	B	Taking over the supplier makes components cheaper, so costs fall to AC2; demand is unchanged, so AR stays AR1.
6	B	The owners aim only for a minimum acceptable level of performance, which is profit satisficing.
7	B	At 2000 units AC is $80; in the long run the firm moves along LRAC to SRAC2, where 3000 units cost $40: a fall of $40.
8	A	Monopolistic competition has many firms and no (or very low) barriers to entry or exit.
9	C	Managers (agents) may pursue their own aims rather than the owners' (principals'): the principal-agent problem.
10	D	Horizontal integration joins firms in the same industry at the same stage of production.
11	D	A tax on cigarettes is a market-based (price) measure, not a regulation; A, B and C are rules or licences.
12	B	The subsidy lowered the operator's costs, so removing it raises private

Question number		
		marginal costs.
13	D	Wage growth falls and turns negative: a larger labour force raises labour supply and pushes wage growth down.
14	B	Marginal products: 7, 10, 9, 8, 6. MP is highest for the 2nd worker and falls from the 3rd worker, so B.
15	B	Wages fall from W1 to W2; on the long-run demand curve D employment rises from L1 to L2.
16	B	Money acts as a medium of exchange, so it removes the need for a double coincidence of wants.
17	D	Vacancies rise with unemployment when workers lack the skills for the jobs available: occupational immobility.
18	D	More training raises skills and occupational mobility, so structural unemployment and the NRU fall.
19	C	Initial C = 0.8 × 1000 = $800. MPC = ΔC ÷ ΔY = (900 − 800) ÷ (1200 − 1000) = 100 ÷ 200 = 0.5.
20	A	Unemployment rate = unemployed ÷ labour force × 100 = 300 000 ÷ 1 200 000 × 100 = 25%.
21	C	Pareto optimality is a microeconomic idea (allocative efficiency), not a macroeconomic policy aim.
22	D	Higher AD moves the economy up SRPC1 from F to J (lower U, higher inflation); expectations adjust, SRPC shifts to SRPC2 and U returns to the natural rate at K.
23	A	Higher borrowing costs raise firms' costs, which they pass on as higher prices: cost-push inflation.
24	B	Lower interest rates raise investment if the marginal efficiency of capital makes more projects profitable; investment then has a multiplier effect.
25	B	A lower exchange rate makes exports cheaper and imports dearer, switching spending to domestic goods.

Question number		
26	A	FDI is in the financial account; interest, profits and dividends are primary income in the current account.
27	D	HDI includes life expectancy at birth (health) and education as well as income per head.
28	B	Tied grants must be spent on the donor country's goods, which is a restrictive condition.
29	A	More doctors improve health care and life expectancy, so living standards rise.
30	D	The low-income country earns income from seasonal work and the high-income country fills labour shortages: both gain.

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ECONOMICS **9708/32**

Paper 3 A Level Multiple Choice **October/November 2024**

1 hour 15 minutes

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1 If consumers aim to maximise their utility, how will they arrange their spending?

A to obtain the same total utility from each commodity

B to obtain the same total utility per $ spent on each commodity

C to obtain the same utility from the last unit of each commodity

D to obtain the same utility from the last $ spent on each commodity

2 Which feature of indifference curve theory is most likely to apply in reality?

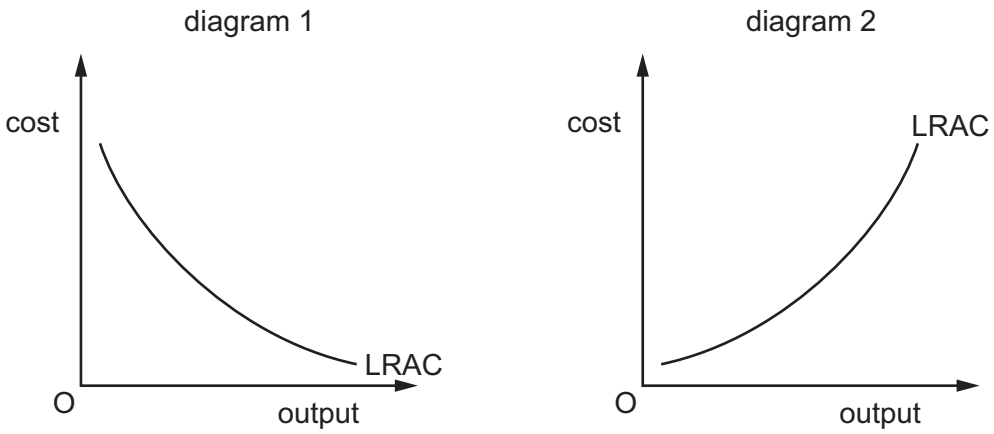
A The consumer can express preferences between all possible combinations of goods.

B The consumer has a limited income to spend.

C The consumer will always behave rationally.

D The consumer will always get positive utility from having more of the goods.

3 Diagrams 1 and 2 show different long-run average cost curves (LRAC).



Which situations do the two diagrams show?

	diagram 1	diagram 2
A	falling returns to scale	average cost is greater than marginal cost
B	falling returns to scale	rising returns to scale
C	unit cost falls as output increases	falling average fixed costs
D	unit cost falls as output increases	unit cost rises as output increases

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4 A government makes it compulsory for motorbike riders to wear helmets.

What would represent a positive externality of consumption associated with this decision?

A decreased pressure on the provision of health care

B expenses incurred on surveillance of motorbike riders to ensure compliance

C increased life expectancy of motorbike riders

D increased profits of helmet manufacturers

5 The table shows the market shares of firms selling a very similar product in a country between 2018 and 2020.

firm	2018	2020
Norton	28.4	27.4
Souton	18.9	17.6
Eastern	17.1	14.7
Western	12.5	11.4
Scotsdale	7.2	8.5
Welshpool	5.8	8.2
Greenland	3.9	4.8
Franklin	2.2	3.6
Bellweather	2.1	1.9
others	1.9	1.9

What can be concluded from the data between the two years?

A Market concentration increased.

B Sales of the top four firms fell.

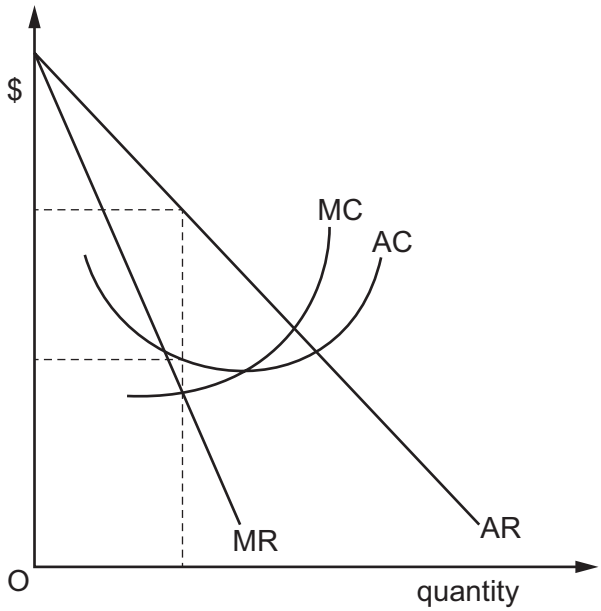
C Scotsdale and Welshpool's profits rose.

D The concentration ratio of the four largest firms fell.

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6 The diagram shows a profit maximising firm in equilibrium.



What would happen to the firm's price, output and profit if there was an increase in its fixed costs?

	price	output	profit
A	rise	fall	rise
B	rise	fall	fall
C	unchanged	rise	rise
D	unchanged	unchanged	fall

7 A bus company has a monopoly and specialises in long-distance travel. It initially sells its tickets to customers one month in advance of the journey. As the departure date approaches, the price of a ticket increases.

Which kind of pricing policy does the bus company operate?

A minimum pricing

B predatory pricing

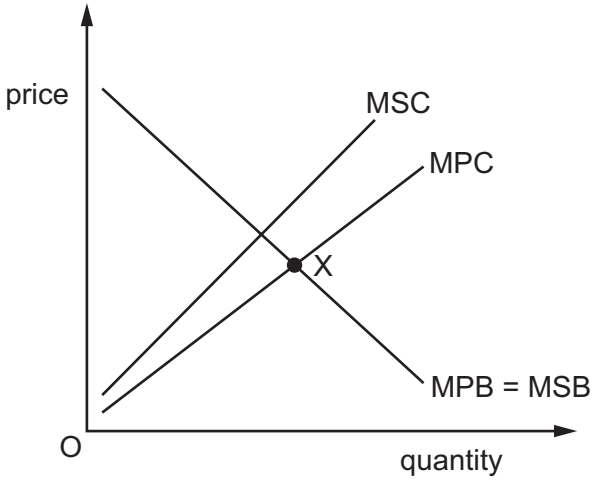
C price discrimination

D price leadership

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8 The diagram shows the marginal private benefit (MPB), the marginal private cost (MPC) and the marginal social cost (MSC) for firms in an industry. The equilibrium price is point X.



What should happen to achieve allocative efficiency?

A a decrease in consumption and an increase in price

B a decrease in production and no change in price

C an increase in consumption and a decrease in production

D an increase in price and no change in production

9 Firm X is considering whether to co-operate with its rival so that their joint profit is $4000 a month ($2000 each). It calculated that, if it did not co-operate, its own profit would be $2800 a month provided it kept all its customers itself. However, if its rival undercut X's price and took some of X's customers then X's profit would be $1200. It has no knowledge of what the rival's policy will be.

What describes the situation that the firm is facing?

A monopoly profit maximisation

B principal agent problem

C prisoner's dilemma

D satisficing

10 A smartphone manufacturing company takes over an electronic chip design company.

This is an example of which type of growth?

A horizontal

B lateral

C vertical backwards

D vertical forwards

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11 What is **not** a valid comment economists may make regarding the need to subsidise a green energy market that uses solar and wind power?

A It is cheaper to use the plentiful supply of coal.

B Markets will become more efficient.

C The value of the positive externalities cannot be estimated.

D The value of the negative externalities cannot be estimated.

12 In which situation is the introduction of a minimum wage most likely to raise employment opportunities as well as wages?

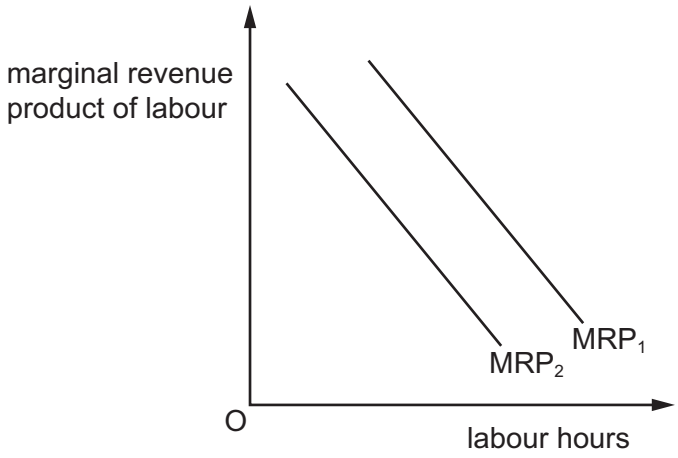
A Firms face intense competition both at home and abroad.

B Labour costs are a high proportion of the total cost of the firm.

C The minimum wage is not high enough to lower the profits of the firms.

D The minimum wage introduced in monopsony is less than the marginal revenue productivity (MRP) of the last worker employed.

13 The diagram shows a firm's initial marginal revenue product of labour curve (MRP_1).



What could cause the curve to shift to MRP_2?

A a fall in the wage rate

B a fall in the price of the final product

C a rise in the wage rate

D a rise in the price of the final product

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14 A firm operates in a perfectly competitive labour market.

The table shows the marginal revenue product (MRP) and marginal cost of labour (MCL) for each additional worker employed by this profit-maximising firm.

units of labour employed	MRP	MCL
1	50	30
2	40	30
3	30	30
4	20	30

How many units of labour will this firm employ?

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

15 Countries in South East Asia have some of the highest income inequality in the world.

Which policy could be adopted by governments in South East Asia to reduce income inequality in the short run?

A Increase the general sales tax / VAT rate on luxury goods.

B Introduce a minimum wage.

C Invest heavily in schools and education programmes.

D Stimulate economic growth through skills and productivity training.

16 When buying a car, Salma agrees to pay half of the cost now and the other half in six months time.

Which function of money does this illustrate?

A divisibility

B durability

C standard of deferred payment

D store of value

17 When is the natural rate of unemployment most likely to fall?

A when there is a decline in the education levels of workers

B when there is an increase in income tax rates

C when there is an increase in labour mobility

D when there is a rise in the rate of state unemployment benefits

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18 A country has increasing productivity and falling unemployment.

What can be concluded from this information?

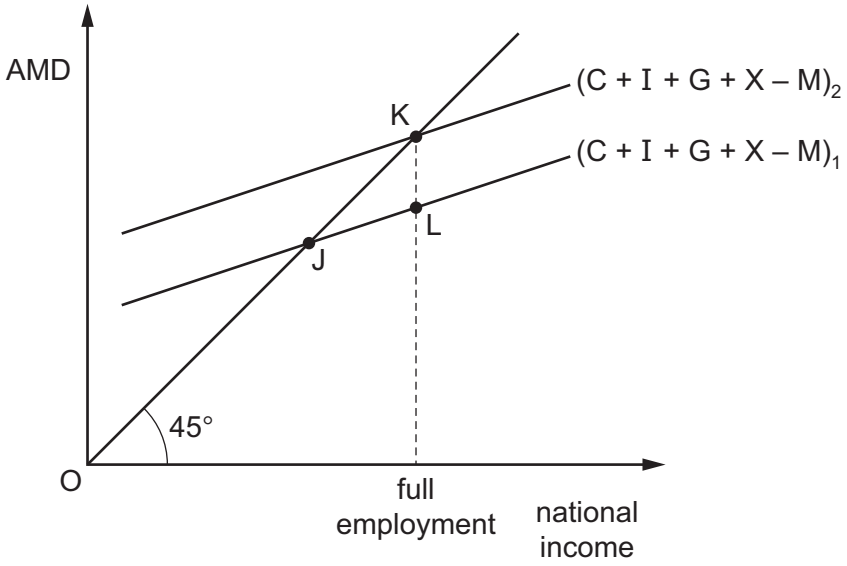
A Economic efficiency has increased.

B Interest rates have increased.

C Taxation has increased.

D The labour force has increased.

19 The diagram shows full employment, national income, and expenditure (AMD). The economy is in equilibrium at J.



What does the distance KL represent?

A a deflationary gap

B a trade deficit

C an inflationary gap

D an employment gap

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20 A country experiences an increase in unemployment due to deficiency of aggregate demand.

What will be the effect of this on tax revenue and government expenditure, assuming that tax rates and rates of unemployment benefit remain unchanged?

	tax revenue	government expenditure
A	decrease	increase
B	decrease	no change
C	increase	decrease
D	no change	increase

21 A government is successful in raising the rate of economic growth.

As a result, which other macro-economic aim would it most likely have achieved in the short run?

A balance of payments surplus

B higher employment

C lower inflation

D stronger exchange rate

22 Which argument for lowering income tax rates is **always** valid?

A It boosts economic activity.

B It promotes the incentive to work.

C It reduces the budget deficit.

D It reduces the incentive to evade taxes.

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23 The table shows the percentage of labour force unemployed and the rate of inflation in a country over a five-year period.

year	unemployment %	inflation %
1	3.5	4.0
2	4.1	3.6
3	4.3	2.5
4	4.5	2.2
5	4.8	2.0

Which statement about the application of the Phillips curve theory to this country is most supported by the data?

A The data are entirely consistent with the theory of the Phillips curve.

B The data prove conclusively that the Phillips curve theory does not operate.

C The data suggest that no conclusions can be reached about the validity of the Phillips curve theory.

D The data suggest that the theory of the Phillips curve is correct, though with time lags.

24 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

25 In 2018, the United States (US) government introduced tariffs on a wide range of imports from China.

Which type of policy was the US government adopting?

A expenditure-reducing

B expenditure-switching

C expansionary monetary

D contractionary monetary

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26 A US company receives a US$20 million dividend from shares that it owns in a Brazilian company.

How would this dividend be shown in the balance of payments of the United States?

A a credit in the capital account

B a credit in the current account

C a debit in the capital account

D a debit in the current account

27 An increase or decrease in exchange rates can take place in both a floating and a fixed exchange rate system but different terminology is used for each system.

What is the correct terminology?

	floating rate decreases	fixed rate increases
A	depreciation	appreciation
B	depreciation	revaluation
C	devaluation	appreciation
D	devaluation	revaluation

28 Company X is a multinational company that produces batteries for electric cars. It decides to invest in a new factory in country N.

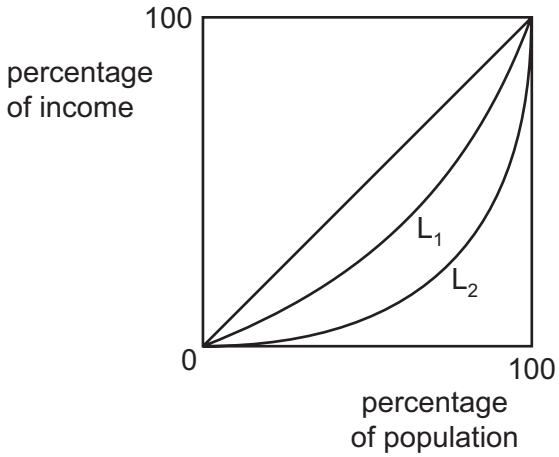
Under which conditions is this investment most likely to improve the current account balance on the balance of payments in country N?

	% of raw materials used to make batteries supplied by country N	income elasticity of demand for electric cars outside country N
A	10	0.5
B	10	1.5
C	90	0.5
D	90	1.5

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29 The diagram shows two Lorenz curves.



If the Lorenz curve shifts from L_1 to L_2, what is **least** likely to have caused this?

A Capital gains tax has been reduced.

B Income tax has been made more progressive.

C Inheritance tax has been reduced.

D The tax-free allowance has been decreased for everyone.

30 What is a likely result of globalisation?

A Absolute advantage replaces comparative advantage as the basis for trade.

B Firms' supply chains are shortened.

C Trade is less likely to suffer from international economic shocks.

D There are higher standards of living.

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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	Equi-marginal principle: MU of the last $ spent is equal for every good (MUa ÷ Pa = MUb ÷ Pb).
2	B	Consumers really do face a limited income (the budget line); the other assumptions are unrealistic.
3	D	Diagram 1: LRAC falls as output rises (unit cost falls); diagram 2: LRAC rises as output rises (unit cost rises).
4	A	Fewer serious injuries reduce pressure on health care, a benefit to third parties: a positive externality.
5	D	4-firm ratio 2018: 28.4 + 18.9 + 17.1 + 12.5 = 76.9%; 2020: 27.4 + 17.6 + 14.7 + 11.4 = 71.1%, so it fell.
6	D	Fixed costs do not affect MC or MR, so price and output are unchanged; AC rises, so profit falls.
7	C	Different prices for the same journey, based on when the ticket is bought: price discrimination.
8	A	MSC > MPC, so the market overproduces at X; output must fall to where MSC = MSB at a higher price.
9	C	Each firm's best choice depends on its rival's unknown choice, and both may end up worse off: prisoner's dilemma.
10	C	The chip designer supplies an earlier stage of the smartphone maker's production: backward vertical integration.
11	B	A subsidy is justified by externalities, not because markets themselves become more efficient; A, C and D are valid points.
12	D	In monopsony, a minimum wage below the MRP of the last worker makes

Question number		
		MCL flat, so both wages and employment rise.
13	B	MRP = MP × MR. A fall in the price of the final product lowers MR, so MRP shifts left to MRP2.
14	C	Profit-maximising firm employs where MRP = MCL: 30 = 30 at 3 units of labour.
15	B	A minimum wage raises the incomes of the lowest paid immediately; A is a tax on spending and C and D take time.
16	C	Paying for the car at a future date uses money as a standard of deferred payment.
17	C	Greater labour mobility cuts frictional and structural unemployment, so the natural rate falls.
18	A	Higher productivity means more output from each input, so economic efficiency has increased.
19	A	J is below full employment; KL is the extra spending needed to reach full employment: a deflationary gap.
20	A	More unemployed people means less income tax and more benefit payments (automatic stabilisers).
21	B	Faster growth raises output, so firms need more workers: employment rises in the short run.
22	D	Lower rates always reduce the gain from evading tax; the other effects depend on the circumstances.
23	A	Every year unemployment rises (3.5% to 4.8%) as inflation falls (4.0% to 2.0%): an inverse relationship.
24	C	A lower Gini coefficient means the Lorenz curve is closer to the line of equality.
25	B	Tariffs make imports dearer, switching spending towards domestic goods: expenditure-switching.
26	B	Dividends from abroad are primary income, so a credit in the US current

Question number		
		account.
27	B	A floating rate falls by depreciation; a fixed rate is raised by revaluation.
28	D	Local raw materials (90%) cut imports, and income elastic (1.5) demand abroad raises exports as world incomes grow.
29	B	L2 is further from the diagonal, so inequality rose; a more progressive income tax would reduce inequality.
30	D	Specialisation on comparative advantage raises world output, so living standards are likely to rise.

Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/33**

Paper 3 A Level Multiple Choice **October/November 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 **16** pages. Any blank pages are indicated.

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[Turn over

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1 A rational consumer chooses what quantities of two products Y and Z to purchase with a given income.

MU_Y and MU_Z are the additions to total utility that would result if the consumer were to purchase an additional unit of each product.

P_Y and P_Z are the current prices of the two products.

Which outcome would represent consumer equilibrium?

A when $MU_Y = MU_Z$

B when $MU_Y \times P_Y = MU_Z \times P_Z$

C when $MU_Y \times P_Z = MU_Z \times P_Y$

D it is not possible to tell from the information available

2 Which statement about indifference curves is **not** correct?

A Indifference curves are usually convex to the origin of the diagram.

B Indifference curves can intersect each other.

C The consumer always prefers a higher indifference curve to a lower one.

D The slope of the indifference curve represents the marginal rate of substitution.

3 A firm increases its production.

When will this result in allocative efficiency?

A when the cost of producing the last extra unit equals the value the consumers place on it

B when the cost of producing the last extra unit is at a minimum

C when the total cost of production equals the value that consumers place on the total product

D when the total revenue reaches a maximum

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4 The table shows a firm's revenue and costs at different levels of output.

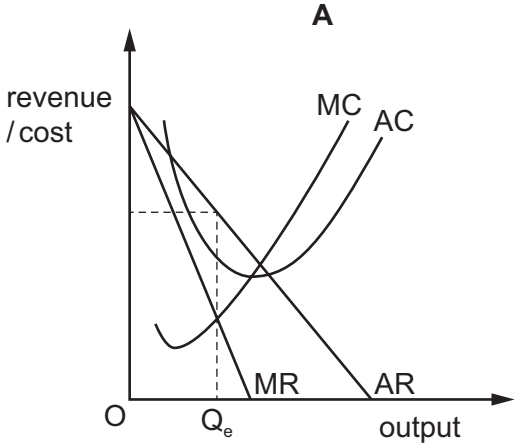
output	marginal revenue	average revenue	marginal cost	average total cost
1	125	125	90	140
2	85	105	40	90
3	45	85	45	75
4	25	70	*95*	80
5	20	60	130	90

What is the firm's total supernormal profit at the profit-maximising level of output?

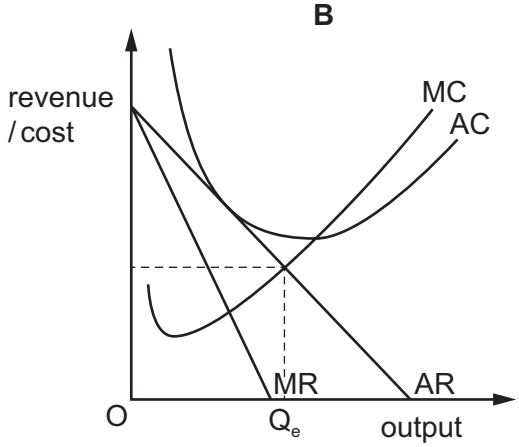
A –15 **B** 10 **C** 30 **D** 120

5 Which diagram shows a monopolistically competitive firm in long-run equilibrium?

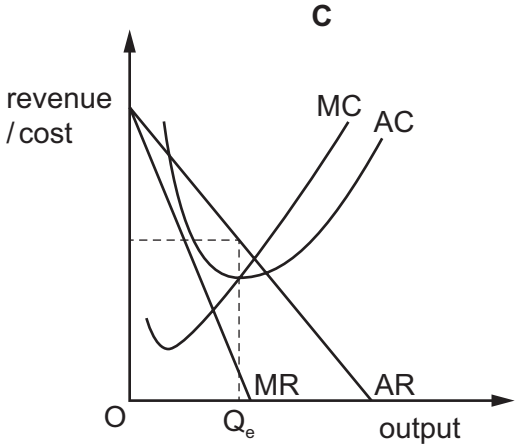
A



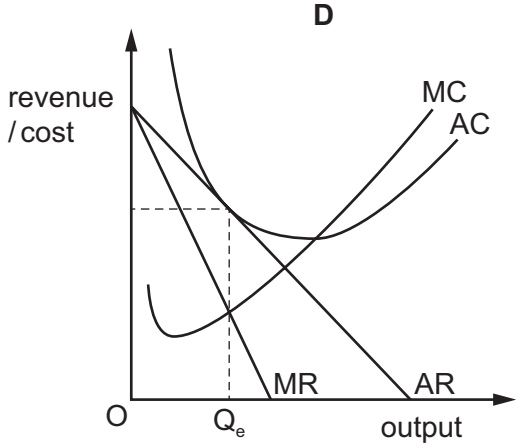
B



C



D



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6 In a perfectly contestable market, entries and exits are cost-free.

In reality, why is this **not** the case with some firms in contestable markets?

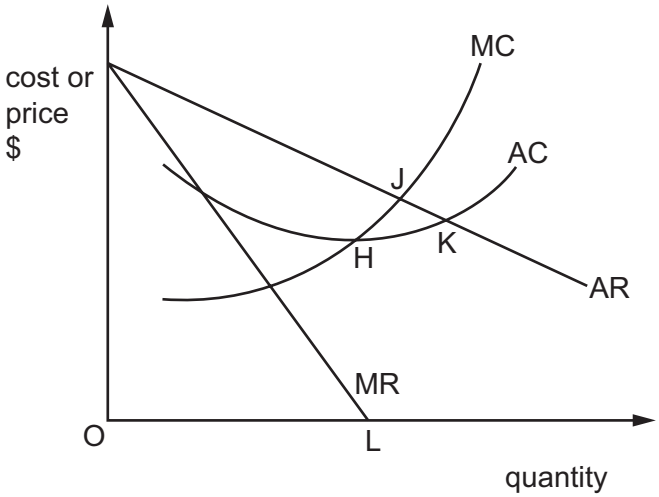
A Firms cannot recover all fixed costs if they cease operations.

B Firms in the industry all operate at the equilibrium level of output.

C Large firms do not have to increase capital to grow.

D Multinational companies always benefit from economies of scale.

7 Which points show where each maximisation objective occurs?



	revenue maximisation	sales maximisation
A	J	L
B	L	K
C	J	K
D	L	H

8 What is an external economy of scale?

A cheaper costs from purchasing large quantities of inputs

B decreased interest rates on borrowed funds

C increased labour productivity

D relevant training facilities at a local college

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9 A group of producers enter into an agreement to restrict supply or fix the price of a good.

What does this describe?

A a cartel

B a conglomerate merger

C economies of scale

D horizontal integration

10 What is meant by a four-firm concentration ratio of 25%?

A The largest four firms' market share totals 25%.

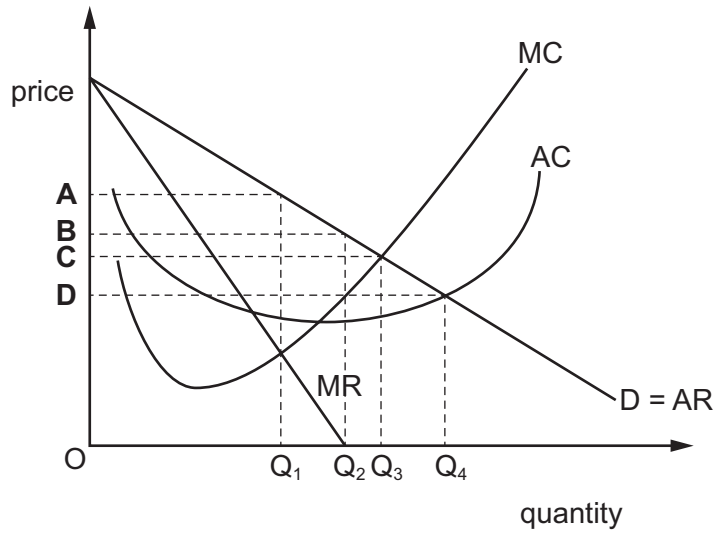
B The largest four firms have a market share of 25% each.

C There are only four firms in the industry.

D The largest firm has a 25% market share.

11 A government decides to use price controls to achieve allocative efficiency in a monopoly market.

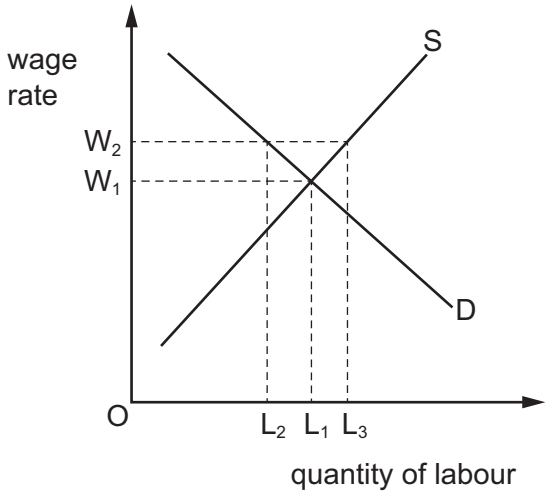
Which price would need to be set to achieve allocative efficiency?



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12 The diagram shows the supply of and the demand for workers in the car manufacturing industry.

A trade union successfully negotiates a wage increase from W_1 to W_2.



What is the likely impact on the level of employment?

A fall from L_1 to L_2

B fall from L_3 to L_2

C rise from L_1 to L_3

D rise from L_2 to L_3

13 A firm buys new machinery which increases the marginal productivity of its workforce.

What will be the resulting impact on the market for labour?

A a shift to the left in the demand curve for labour

B a shift to the right in the demand curve for labour

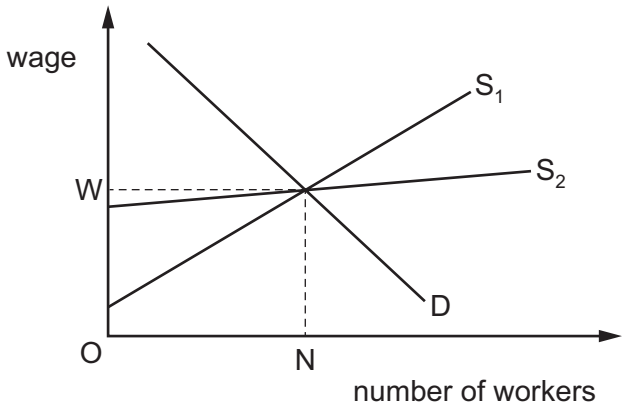
C a shift to the left in the supply curve of labour

D a shift to the right in the supply curve of labour

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14 The diagram represents the market for labour.



What would be the effect on transfer earnings and economic rent of a change in the supply curve from S_1 to S_2?

	transfer earnings	economic rent
A	fall	falls
B	fall	rises
C	rise	rises
D	rise	falls

15 Which combination of policies is most likely to increase the number of low-paid workers caught in the poverty trap?

	individual's tax-free allowance for income tax	proportion of all benefits that are means-tested
A	decrease	increase
B	decrease	decrease
C	increase	increase
D	increase	unchanged

16 A website compares the prices of groceries.

Which function of money is illustrated by this?

A medium of exchange

B standard of deferred payment

C store of value

D unit of account

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17 Two statements about the types of unemployment are shown.

1 You will get unemployment if you pay people **not** to work, and tax them when they do.

2 An individual is actively seeking work but due to negative economic growth cannot find employment.

Which row best describes the two types of unemployment in these statements?

	1	2
A	cyclical	structural
B	voluntary	frictional
C	structural	cyclical
D	voluntary	involuntary

18 A government decides to cut the rate of interest in order to stimulate aggregate demand and increase employment.

Why might this policy **not** work in a recession?

A Business confidence is low.

B It leads to deflation.

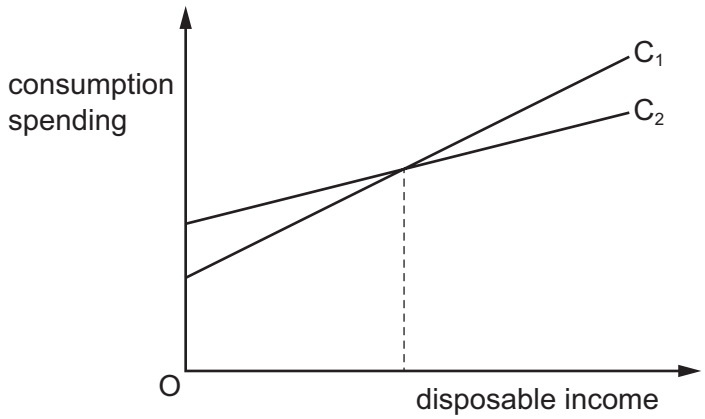
C It leads to an appreciation in the exchange rate.

D It leads to a decrease in the money supply.

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19 Households in an economy change their consumption behaviour causing the consumption curve to shift from C_1 to C_2.



What has happened to autonomous consumption and the marginal propensity to consume?

	autonomous consumption	marginal propensity to consume
A	decreased	decreased
B	decreased	increased
C	increased	decreased
D	increased	increased

20 How would decreasing interest rates be most likely to reduce unemployment?

A by decreasing the borrowing costs of business

B by decreasing the government's budget deficit

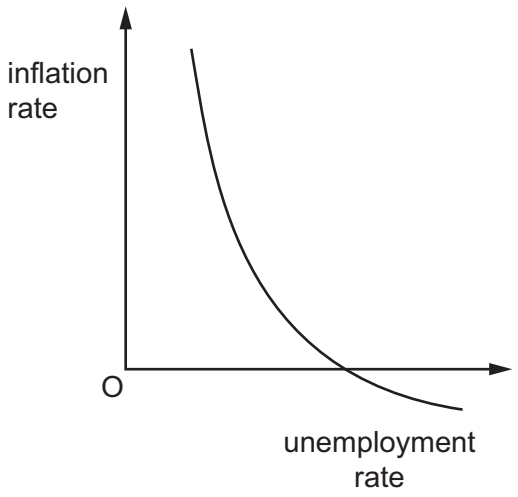
C by increasing the foreign exchange rate of the currency

D by increasing the opportunity cost of spending

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21 The diagram shows a curve representing the relationship between a country's unemployment rate and its inflation rate.



Why is it likely that this curve only applies in the short run?

A Any attempt to reduce unemployment will increase inflation.

B Increased inflation actually increases unemployment.

C Increased inflation leads to expectations of further inflation.

D Increased inflation reduces real wage rates, which increases the demand for labour.

22 What is the most likely result of a period of negative actual growth?

A an increase in the surplus of the financial account of the balance of payments

B an increase in the deficit of the current account of the balance of payments

C an increase in the rate of inflation

D an increase in the rate of unemployment

23 An economy experiences falling incomes and rising unemployment. The central bank decides to reduce the rate of interest to stimulate economic activity.

When would such a policy be most likely to succeed?

A when spending by consumers on goods and services is income elastic

B when spending by firms on capital goods is interest rate elastic

C when the leakage on additional national income is high

D when the overseas demand for exports is price inelastic

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24 Monetary policy does not usually work immediately.

Which time lag is likely to be the **least** concern to a government whose priority is a rapid domestic impact?

A the time it takes for policymakers to recognise the cause of a problem

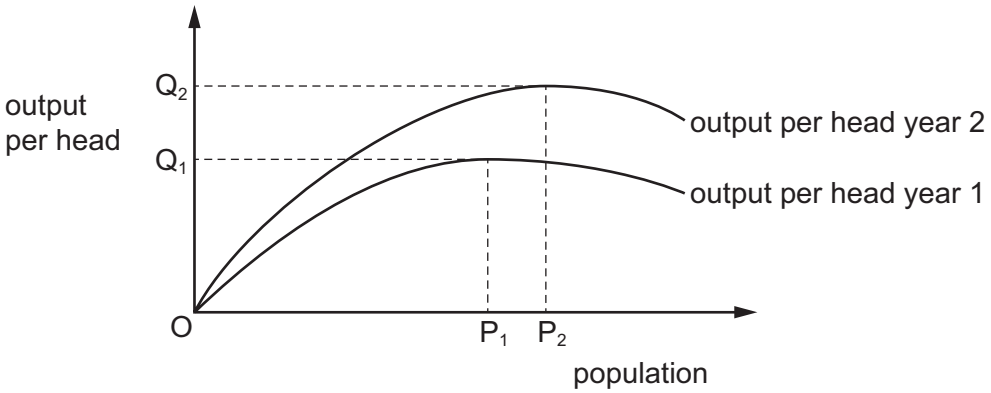
B the time it takes for the economy to respond to the introduction of the policy

C the time it takes for the foreign exchange rate to respond to the effect of the policy

D the time it takes to put the chosen policy measure into place

25 The optimum level of population is deemed to be that level at which real output per head is maximised.

The diagram shows the relationship between population size and output per head in a country for two different time periods.



Which change could **not** satisfactorily explain the shift from year 1 to year 2?

A Population has increased.

B State of technology has improved.

C Stock of capital has increased.

D Volume of productive resources in use has increased.

26 A government wants to reduce the current account deficit on the balance of payments.

What is an example of an expenditure-reducing policy?

A a devaluation of the currency

B a subsidy on domestic production

C a tariff on imports

D an increase in income taxes

27 During a year, a country's national income in money terms increased by 5%, prices increased by 4% and the total population increased by 2%.

What was the approximate change in real income per head?

A a decrease of 1%

B a decrease of 2%

C an increase of 1%

D an increase of 2%

28 What is most likely to result from foreign direct investment in a developing economy?

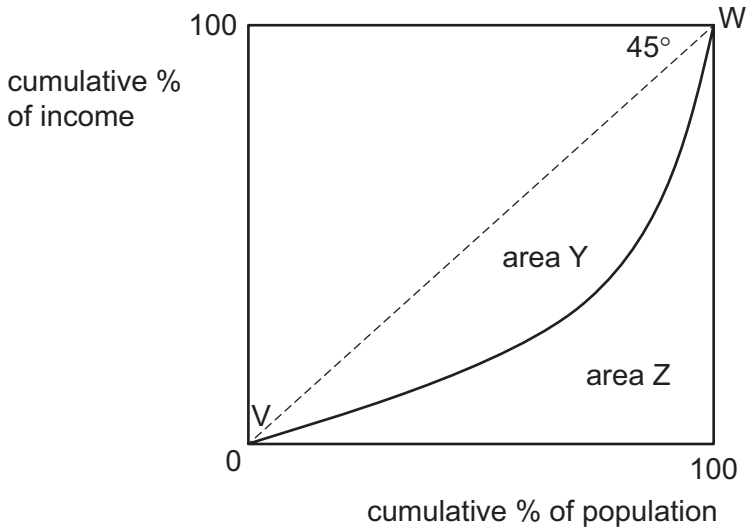
A an improvement in the developing economy's trade balance

B an increase in the developing economy's net investment income

C a reduction in the developing economy's government tax revenue

D a reduction in wage levels in the developing economy

29 The diagram shows an economy's Lorenz curve (VW).



How is the Gini coefficient for the economy calculated?

A $\frac{Y}{Y+Z}$ **B** $\frac{Y}{Z}$ **C** $\frac{Z}{Y}$ **D** $\frac{Z}{Y+Z}$

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30 The table gives the percentage of employment in the primary, secondary and tertiary sectors in four countries.

Which country is most likely to be a high-income country?

	primary sector %	secondary sector %	tertiary sector %
A	15	40	45
B	30	40	30
C	35	45	20
D	45	35	20

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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	C	Equilibrium where MUY ÷ PY = MU2 ÷ P2, which rearranges to MUY × P2 = MU2 × PY.
2	B	Indifference curves cannot intersect, as that would mean one bundle gives two levels of satisfaction.
3	A	Allocative efficiency is where P = MC: the cost of the last unit equals the value consumers place on it.
4	C	MC = MR = 45 at output 3. Profit = (AR − ATC) × Q = (85 − 75) × 3 = 30.
5	D	In the long run MC = MR at Qe and AR is tangent to AC, so only normal profit is made.
6	A	Some fixed costs are sunk costs that cannot be recovered on exit, so exit is not cost-free.
7	B	Revenue maximisation is where MR = 0 (L); sales maximisation is where AR = AC (K).
8	D	A local college training workers benefits all firms in the industry and area: an external economy.
9	A	Producers agreeing to restrict output or fix prices form a cartel.
10	A	The four largest firms together have a combined market share of 25%.
11	C	Allocative efficiency requires P = MC, so the price is set where MC cuts AR.
12	A	At the higher wage W2 firms demand less labour, so employment falls from L1 to L2.
13	B	Higher MP raises MRP, so the demand curve for labour shifts right.
14	D	S2 is more elastic: the area under supply (transfer earnings) rises and the

Question number		
		area above it (economic rent) falls.
15	A	A lower tax-free allowance and more means-tested benefits raise the effective marginal tax rate on the low paid.
16	D	Comparing prices uses money as a unit of account (a measure of value).
17	D	Statement 1: people choose not to work, voluntary; statement 2: wants work but none due to recession, involuntary.
18	A	In a recession, low business confidence means firms will not invest even when borrowing is cheaper.
19	C	C2 has a higher intercept (autonomous consumption up) and a flatter slope (MPC down).
20	A	Cheaper borrowing raises investment, so AD and the demand for labour rise.
21	C	Workers come to expect inflation and demand higher wages, so the short-run curve shifts up.
22	D	Falling output means firms need fewer workers, so unemployment rises.
23	B	If investment is interest elastic, lower rates raise investment strongly and the multiplier raises income.
24	C	A rapid domestic impact does not depend on how the exchange rate responds, so C matters least.
25	A	A change in population is a movement along the curve, not a shift; B, C and D raise output per head.
26	D	Higher income tax cuts disposable income, so spending (including on imports) falls: expenditure-reducing.
27	A	Real income per head ≈ 5% − 4% − 2% = −1%, a decrease of about 1%.
28	A	FDI can raise exports and replace imports with local production, improving the trade balance.
29	A	Gini = area between equality line and Lorenz curve ÷ total area under the equality line = Y ÷ (Y + Z).
30	A	Smallest primary (15%) and largest tertiary (45%) sector.

Question number

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