Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/31**

Paper 3 A Level Multiple Choice **October/November 2025**

1 hour 15 minutes

You must answer on the multiple choice answer sheet.

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

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INSTRUCTIONS

- There are **thirty** questions on this paper. Answer **all** questions.
- For each question there are four possible answers **A**, **B**, **C** and **D**. Choose the **one** you consider correct and record your choice in soft pencil on the multiple choice answer sheet.
- Follow the instructions on the multiple choice answer sheet.
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- Do **not** write on any bar codes.
- You may use a calculator.

INFORMATION

- The total mark for this paper is 30.
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This document has **12** pages.

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1 What is likely to lead to the principal-agent problem?

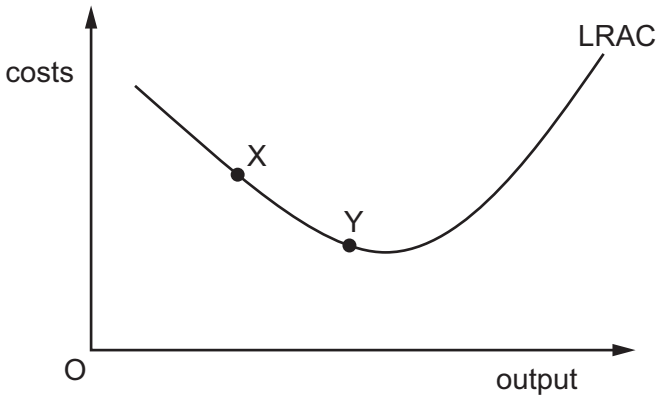
A a manager of a business makes decisions on behalf of the owner

B music festival tickets are purchased by a person who intends to sell them at a large profit

C the government is the only buyer of a pharmaceutical product

D there is only one firm that manufactures the product

2 A small European airline currently produces at point X on its long-run average cost curve (LRAC). It wants a bigger share of the European airline market and proposes to merge with another small European airline. The newly merged firm would produce at point Y on the long-run average cost curve, as shown.



Why might the newly merged firm be able to produce at point Y?

A The new airline can negotiate discounts when buying fuel.

B The new airline has many layers of management.

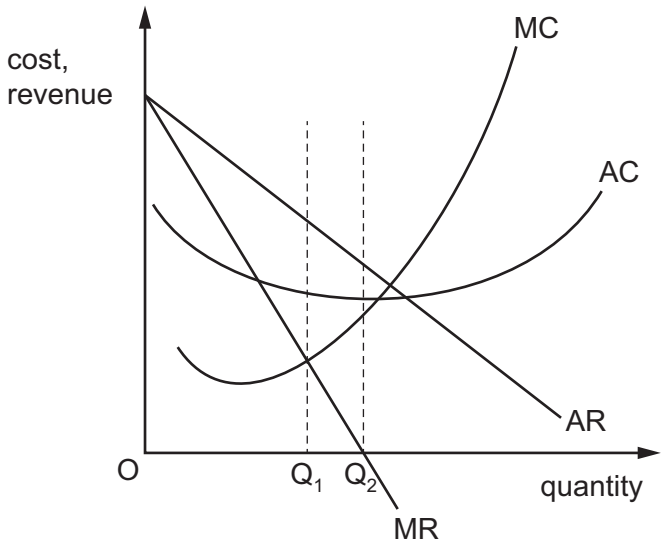
C The new airline is unable to hire enough pilots.

D The workforce of the new airline lacks morale and is demotivated.

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3 The diagram shows that a producer increases output from Q_1 to Q_2.



What will be the result?

	total profit	total revenue
A	increased	increased
B	increased	reduced
C	reduced	increased
D	reduced	reduced

4 A consumer maximises his total utility by initially buying 10 units of good X and 10 units of good Y.

Assuming both goods are normal, what would cause this utility-maximising consumer to purchase more of good Y and less of good X?

A an increase in the marginal utility of good Y

B an increase in the price of good Y

C an increase in the tax on the consumption of good Y

D an increase in the tax on the income of consumers

5 What is most likely to lead to a Pareto-optimal outcome?

A offering bulk-buy discounts to customers who join a loyalty scheme

B switching labour from producing low-priced products to producing high-priced products

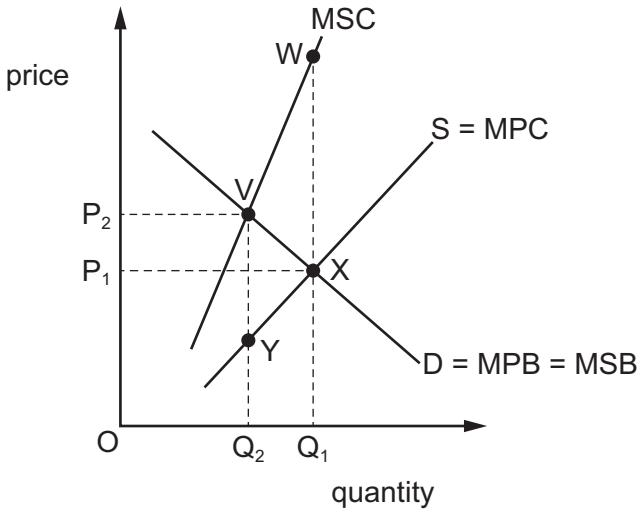
C switching production from labour-intensive products to capital-intensive products

D training low-skilled workers to operate machinery effectively

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6 The diagram shows market failure caused by negative production externalities.



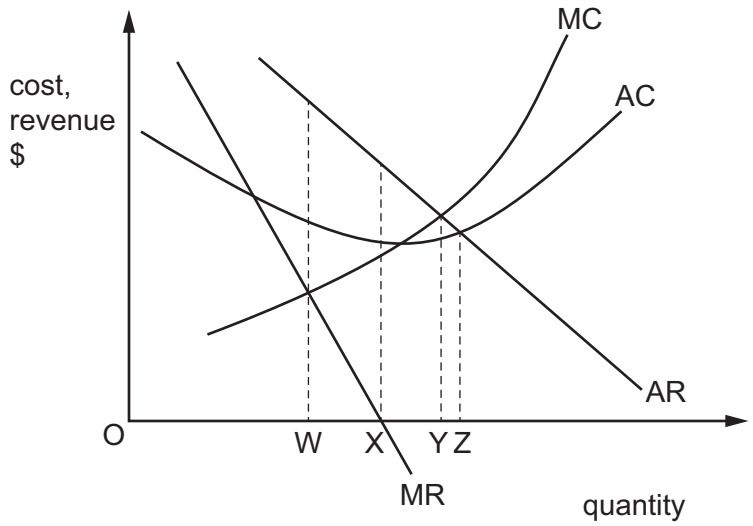
Identify the correct combination of the result of the market failure and the area on the diagram that shows deadweight welfare loss.

	result of market failure	area showing deadweight welfare loss
A	overproduction	VWX
B	overproduction	XYV
C	underproduction	VWX
D	underproduction	XYV

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7 The diagram shows the cost and revenue curves of a firm.



The firm changes its objective from revenue maximisation to sales maximisation.

What will be the effect on quantity produced?

A it will decrease from Y to W

B it will decrease from Z to W

C it will increase from X to Y

D it will increase from X to Z

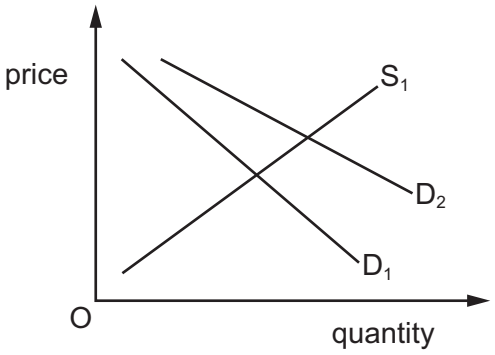
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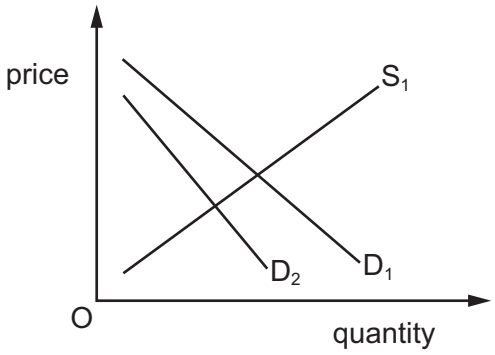
8 The diagrams show the demand curve, D_1, and the supply curve, S_1, for a good that has a sales tax of 10% applied to the final selling price.

Which diagram shows the impact of a reduction in the rate of sales tax to 5%?

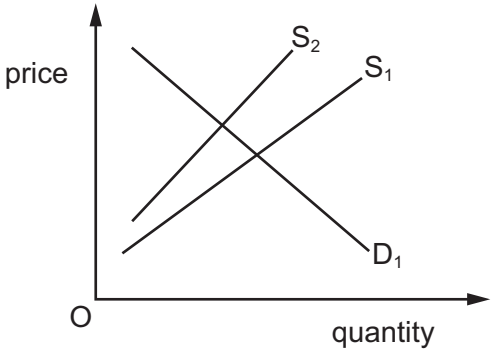
A



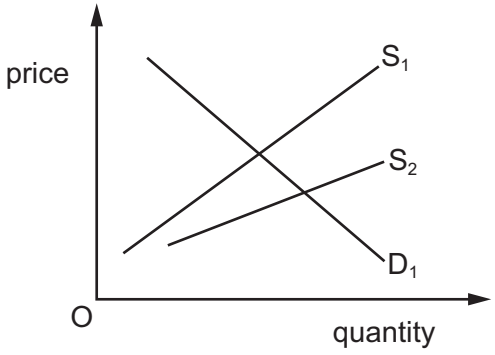
B



C



D



9 Which government policy is intended to correct a negative externality?

A guaranteed minimum prices for farmers producing certain agricultural products

B imposition of taxes on factories releasing pollutants into rivers

C rent controls on housing occupied by low-income individuals

D the provision of free books for children of poorer households

10 Which policy is most likely to contribute to people ending up in a poverty trap?

A legal minimum wage

B means-tested benefits

C prevention of cheaper imports

D proportional taxation

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11 Extra fishing boats start to operate from a local harbour which depends on fishing for its main income.

Which action by the local authority is an example of nudge theory?

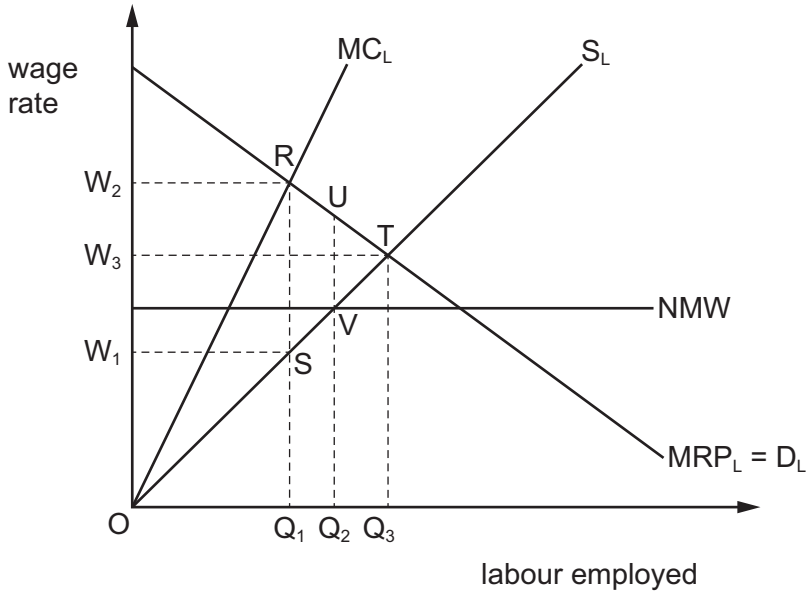
A insisting that all fish caught are sold to local people

B increasing the licence fees for new boats

C distributing leaflets about the need to safeguard fish stocks

D restricting the areas in which boats can fish

12 The diagram shows the effect of introducing an effective national minimum wage (NMW) in a labour market with a profit maximising monopsonist employer.



What is the effect of the NMW on the deadweight welfare loss in this market?

A It falls from RST to UVT.

B It falls from RSVU to UVT.

C It rises from UVT to RST.

D It rises from UVT to RSVU.

13 What is an advantage of pollution permits, when compared with an alternative policy of taxes levied on the quantity of pollutants emitted by firms?

A firms cannot sell any surplus permits

B no monitoring of firms' emissions is required

C pollution levels can be reduced to zero

D the reduction in the level of pollution is more predictable

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14 Which statement about the quantity theory of money is correct?

A It suggests changes in liquidity preference lead to proportional changes in the price level.

B It suggests changes in the money supply lead to proportional changes in the price level.

C It suggests changes in the price level lead to proportional changes in liquidity preference.

D It suggests changes in the price level lead to proportional changes in the money supply.

15 What is a part of Keynesian economic analysis?

A a liquidity trap below which interest rates are ineffective

B an equilibrium price that always clears the market

C a small value for the government expenditure multiplier

D a vertical short-run aggregate supply curve

16 What describes a Keynesian measure to reduce cyclical unemployment?

A adopting a supply-side policy to retrain unskilled workers

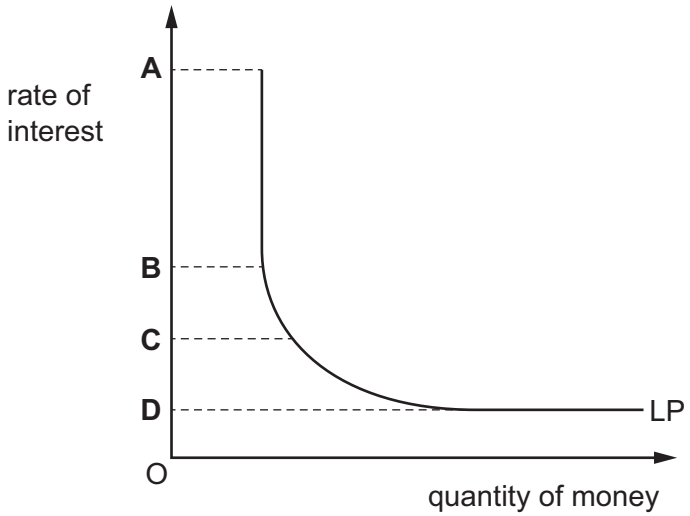
B allowing the private sector to take over the supply of merit goods

C increasing the ratio of capital equipment to manual labour in production

D using fiscal policy to increase effective demand

17 The diagram shows liquidity preference (LP).

At which rate of interest does the liquidity trap occur?



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18 What is a likely consequence of an increase in government spending on education?

A increase in the supply of unskilled labour

B increase in occupational mobility

C increase in the rate of unemployment

D increase in trade union power

19 A country's trade balance has worsened. The country has a fixed exchange rate.

Which additional changes for unemployment and price level are likely to follow?

	the level of unemployment	the price level
A	decreases	decreases
B	decreases	increases
C	increases	decreases
D	increases	increases

20 What may prevent a government achieving a faster rate of growth of real GDP?

A The multiplier has a small value.

B The consumer price index is below its target set by the central bank.

C The economy is operating on the vertical section of the long-run aggregate supply curve.

D There is a large negative output gap in the economy.

21 A fall in domestic investment leads to an increase in unemployment.

Which other economic problem is likely to occur as a result?

A an increase in interest rates on loans for house purchases

B an increase in the current account balance of payments deficit

C an increase in the government budget deficit

D an increase in the rate of price inflation

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22 To overcome deflation in an economy the government increases the size of its budget deficit and funds this by increasing the money supply.

What is most likely to reduce the effectiveness of these measures?

A a high marginal propensity to save

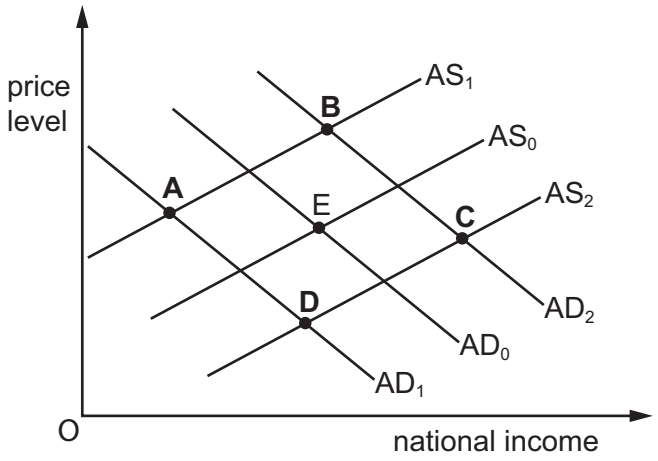
B a rise in business confidence

C an inelastic demand for money

D low cash deposit ratios for commercial banks

23 The diagram shows the aggregate demand, AD, and aggregate supply, AS, curves for an economy. The initial equilibrium is at point E. There is a revaluation of the exchange rate.

If the Marshall-Lerner rule applies, which point on the diagram would show the new long-run equilibrium?



24 What does the Kuznets curve show about the relationship between economic development and inequality?

A the Gini coefficient initially falls as countries develop from low to high income levels

B the Gini coefficient initially rises as countries develop from low to high income levels

C there is always a negative relationship between GDP per capita and the Gini coefficient

D there is always a positive relationship between GDP per capita and the Gini coefficient

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25 Which statement about the components of the balance of payments is correct?

A The current account consists of transactions in goods, services, investment income and remittances between countries.

B The current account consists of transactions in goods, services, and portfolio investment between countries.

C The financial account consists of transactions in financial assets, investment income and remittances between countries.

D The financial account consists of transactions in fixed assets, investment income and the balancing item between countries.

26 Which statement describes a multinational company (MNC)?

A A firm that avoids paying indirect taxes.

B A firm that conducts operations in different countries.

C A firm that experiences diseconomies of scale at low levels of output.

D A firm that trades internationally.

27 What occurs in a monetary union?

A Countries have the same currency.

B Countries use the same fiscal policy.

C Countries have the same domestic rates of sales tax.

D The government budget in each country is balanced.

28 What is the main role of the World Bank?

A to ensure that exchange rate systems are working efficiently

B to help countries enter international markets where trade barriers exist

C to offer short-term assistance to countries with balance of payments problems

D to provide low-interest loans to developing countries for infrastructure projects

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29 There is a rise in the domestic rate of interest in an economy. This economy has a fixed exchange rate.

What would be the impact on the current and financial accounts of the balance of payments?

	current account	financial account
A	improves	improves
B	improves	worsens
C	worsens	improves
D	worsens	worsens

30 As a member of the European Union, Greece must trade at the same exchange rate, tied to the euro, as stronger economies such as Germany. Greece has a persistent balance of payments deficit.

How would changing to a floating exchange rate help Greece?

A Exchange rates will be less volatile which encourages international investment.

B Its currency should be less open to attacks by international speculators.

C Its currency would be allowed to depreciate which will make its exports more competitive.

D The value of its exports and imports will automatically balance.

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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	A	The manager (agent) acts for the owner (principal) but may pursue their own aims: the principal-agent problem.
2	A	Lower LRAC at Y comes from economies of scale, eg bulk-buying discounts on fuel; B, C and D raise costs.
3	C	Q1 is where MC = MR (profit maximum). Beyond Q1, MR is still positive so total revenue rises, but MC > MR so profit falls.
4	A	Optimum is MUx ÷ Px = MUy ÷ Py. A rise in MUy makes MUy ÷ Py > MUx ÷ Px, so the consumer buys more Y and less X.
5	D	Training raises productivity, so someone is made better off without anyone being made worse off: towards Pareto optimality.
6	A	Free market output Q1 > social optimum Q2 (where MSC = MSB): overproduction; the welfare loss is triangle VWX.
7	D	Revenue maximisation is where MR = 0 (X); sales maximisation is where AR = AC (Z), so output rises from X to Z.
8	D	A cut in an ad valorem tax shifts supply down to S2 and the gap narrows at lower prices, so S2 lies below S1 and pivots.
9	B	A tax on pollution makes firms pay the external cost, so MPC rises towards MSC and output falls to the optimum.
10	B	Means-tested benefits are withdrawn as income rises, so the effective marginal tax rate is very high: a poverty trap.
11	C	Leaflets inform and persuade without forcing or changing prices: a nudge; A, B and D are rules or price measures.
12	A	Monopsony employs Q1 at W1 with welfare loss RST; the NMW raises

Question number		
		employment to Q2, cutting the loss to UVT.
13	D	The number of permits sets the total quantity of pollution, so the reduction is more certain than with a tax.
14	B	MV = PT: with V and T constant, a rise in the money supply causes a proportional rise in the price level.
15	A	Keynes argued that at very low interest rates LP becomes perfectly elastic (liquidity trap), so monetary policy fails.
16	D	Cyclical unemployment is caused by too little demand, so Keynesians use fiscal policy to raise effective demand.
17	D	The liquidity trap is at the lowest rate, where LP becomes horizontal (perfectly elastic).
18	B	Education gives workers new and transferable skills, so occupational mobility increases.
19	C	Lower net exports reduce AD; with a fixed exchange rate there is no depreciation to offset it, so the price level falls and unemployment rises.
20	C	On the vertical section of LRAS the economy is at full capacity, so more demand only raises prices, not real GDP.
21	C	Higher unemployment means less tax revenue and more spending on benefits, so the budget deficit increases.
22	A	A high MPS means a large leakage, so the multiplier is small and the rise in AD is weak.
23	D	Revaluation makes exports dearer and imports cheaper: AD falls to AD1 (Marshall-Lerner) and cheaper imported inputs shift AS to AS2.
24	B	Kuznets: inequality (Gini) first rises as a country develops from low income, then falls at higher incomes.
25	A	The current account covers trade in goods and services, primary income (investment income) and secondary income (remittances).
26	B	An MNC is a firm with operations (production or offices) in more than one

Question number		
		country.
27	A	A monetary union shares a single currency and a common central bank and monetary policy.
28	D	The World Bank gives long-term, low-interest loans to developing countries for development and infrastructure.
29	A	Higher rates attract hot money inflows (financial account improves) and reduce AD and imports (current account improves).
30	C	A floating currency would depreciate, so Greek exports become cheaper and more competitive, reducing the deficit.

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1 What is the definition of moral hazard?

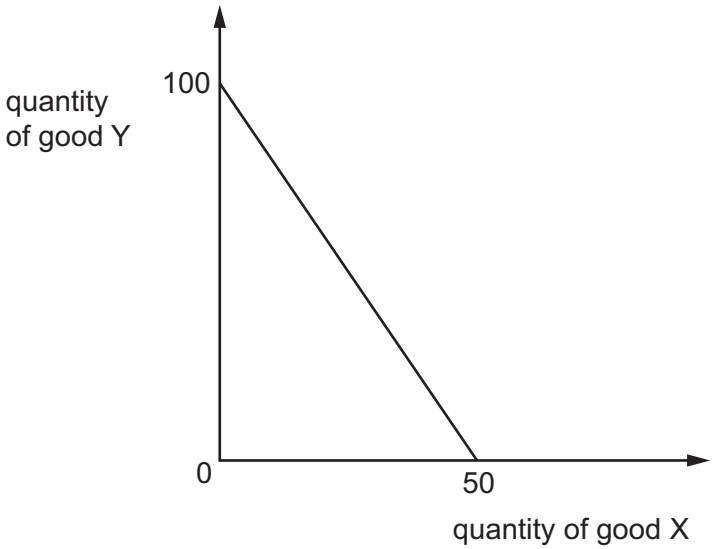
A An increase in the likelihood of taking risks because another party is paying for these risks.

B The loss of social welfare arising from the consumption of a good.

C When buyers and sellers have different amounts of information regarding product quality.

D When costs and benefits are taken into account when a decision is being made.

2 The diagram shows a consumer's budget line.



What determines the slope of the budget line?

A the marginal rate of substitution of good X for good Y

B the price of good X multiplied by the price of good Y

C the ratio of the price of good X to the income of the consumer

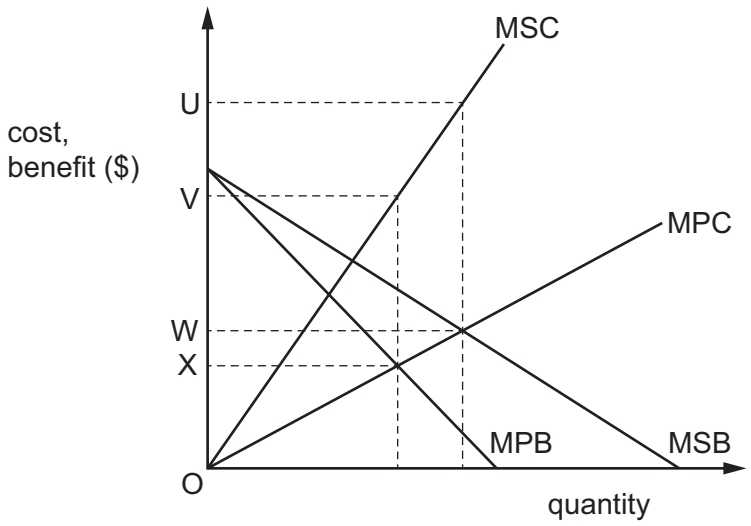
D the ratio of the price of good X to the price of good Y

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3 The diagram shows the marginal costs and marginal benefits of producing a good in a free market.

What is the marginal external cost when the free market is in equilibrium?



A UW **B** UO **C** VX **D** VO

4 A firm has very high fixed costs but low marginal costs of production. It experiences continuous economies of scale so that the minimum efficient scale is not reached until the firm is very large in relation to total market demand.

In which type of market structure would the firm operate?

A monopolistic competition

B monopsony

C natural monopoly

D oligopoly

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5 The table gives the marginal utility of two goods, X and Y. The price of good X is $2.00 and the price of good Y is $1.00.

quantity	marginal utility of good X	marginal utility of good Y
1	110	66
2	80	50
3	66	38
4	56	33
5	33	30

If a consumer spends all of their income on goods X and Y, which combination of goods would they choose to maximise their utility?

A 1 unit of X and 1 unit of Y

B 3 units of X and 1 unit of Y

C 3 units of X and 4 units of Y

D 5 units of X and 1 unit of Y

6 An economist undertakes a cost–benefit analysis of the pollution resulting from a manufacturing process.

Which outcome is most likely to guide any recommendation about the optimal level of manufacturing output?

A that the marginal social cost of manufacturing equals the marginal social benefit

B that the marginal cost of pollution is zero

C that the total revenue of manufacturing equals the total cost

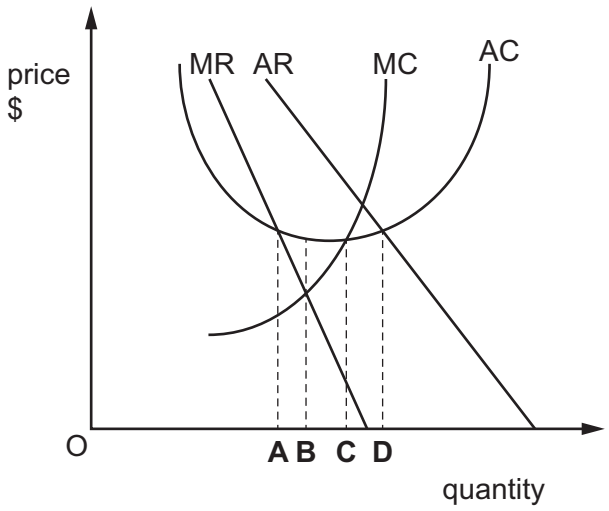
D that the total benefit of pollution is maximised

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7 The diagram shows the cost and revenue curves for a monopolist.

Which level of output represents sales maximisation?



8 What might help achieve allocative efficiency?

A differentiated products

B government subsidies

C monopsony

D supernormal profits

9 What is the essential feature of nudge theory?

A the aim of satisficing

B the establishing of a legal requirement

C the existence of a contestable market

D the idea of persuasion

10 A government has a policy where income tax is paid only after the first $20 000 of income has been earned.

What would make the government's policy more equitable?

A Decreasing the threshold for paying income tax to $10 000 for all taxpayers.

B Integrating the tax and welfare systems by introducing a negative income tax.

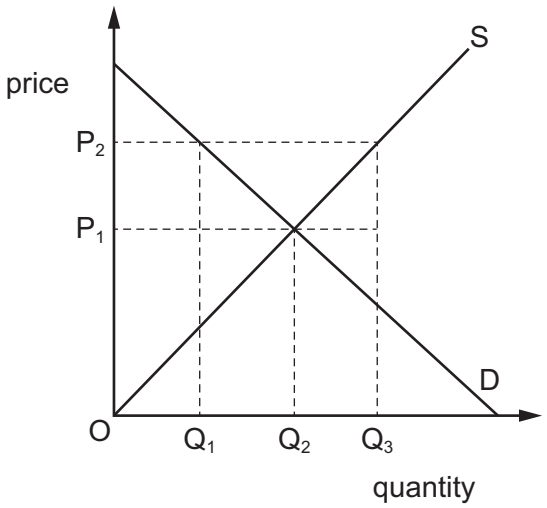
C Introducing universal benefits that are available to all citizens irrespective of wealth.

D Means testing all benefits so that they remain the same even if real incomes fall.

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11 A government introduces a maximum price for rice of P_2.



What is the effect of this?

A Government spending will increase.

B The price of rice will be unchanged.

C There will be a shortage of rice.

D There will be a surplus of rice.

12 A government intervenes to raise the wages of a group of workers to prevent their exploitation.

Where might such government intervention be justified?

A in an industry that is protected by tariffs on imports from abroad

B in an industry where a trade union negotiates wages for the workers

C in an industry where the output is produced by a single firm monopolist

D in an industry where workers are employed by a monopsonist

13 What is likely to reduce the domestic money supply?

A Banks being allowed to hold a lower liquidity ratio.

B Individuals choosing to hold more money in the form of idle balances.

C The government financing its budget deficit by borrowing from the banking sector.

D The government increasing its borrowing from other countries.

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14 The unemployment rate in an economy may continue to rise even after the economy has recovered from a recession.

Which explanation for this trend is **not** correct?

A Many foreign businesses have moved out of the country.

B The government has abolished the national minimum wage.

C An increase in net migration of low-skilled workers.

D Workers lose skills, making them less employable.

15 In which situation is expansionary fiscal policy **least** likely to be effective?

A inflation is below its target rate

B lack of confidence in the economy

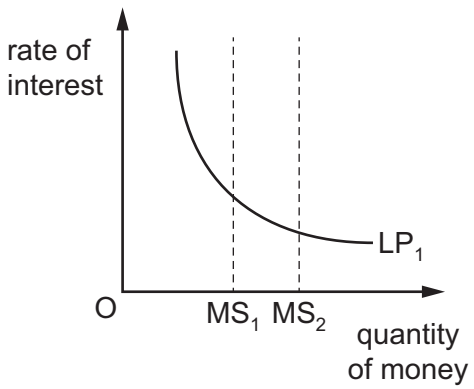
C there is a negative output gap

D unemployment is high

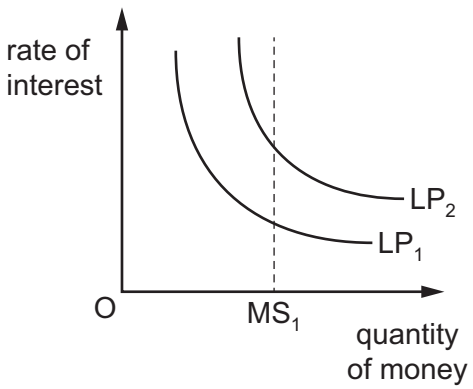
16 In these four diagrams, the money supply in an economy is initially at MS_1 and the demand for money is initially at LP_1.

Which diagram shows the effect of a policy of quantitative easing on the rate of interest?

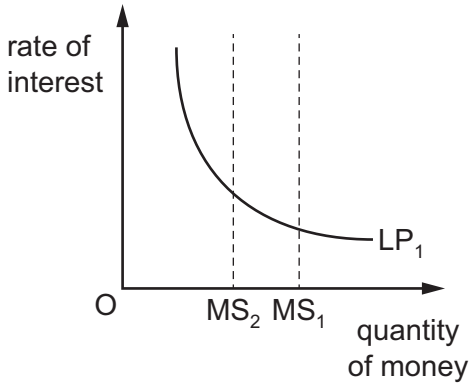
A



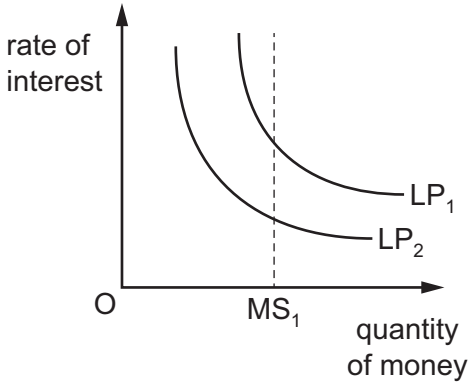
B



C



D



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17 What is most likely to increase if an economy enters a negative output gap?

A business confidence

B economic growth rate

C inflation rate

D unemployment rate

18 A country with a managed exchange rate has a persistent deficit on the current account of the balance of payments. It devalues its currency to reduce this deficit.

Under which conditions will a devaluation help the government to achieve its four main macroeconomic objectives?

	Marshall–Lerner condition satisfied	level of employment
A	no	below full employment
B	no	full employment
C	yes	below full employment
D	yes	full employment

19 What would cause an individual's demand curve for an active money balance to move to the left?

A an increase in the frequency of income payments

B an increase in the general price level

C an increase in the individual's income

D an increase in the rate of interest

20 A government funds an increase in transfer payments to the unemployed by increasing the higher rate of income tax.

What is the most likely impact of this change?

A government borrowing increases

B the incentive to work increases

C the marginal propensity to consume increases

D the quantity of imports increases

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21 Which combination shows the most likely outcome if a government increases the level of direct taxation?

A balance of payments deteriorates and inflation increases

B economic growth increases and balance of payments improves

C inflation decreases and unemployment increases

D unemployment decreases and balance of payments improves

22 In an economy, the price elasticity of demand for imported raw materials is 0.3, and the price elasticity of demand for exports is also 0.3.

Following a depreciation of the economy's currency, what will the impact on inflation be?

	change in inflation rate due to cost-push factors	change in inflation rate due to demand-pull factors
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

23 A government is aiming to reduce the unemployment rate in its country from 10% to 5%.

What is a likely effect if this aim is achieved?

A a decrease in interest rates

B a slow down in the rate of economic growth

C an increase in demand for exports

D an increase in inflation

24 Which statement is correct?

A Economic development is necessary for economic growth.

B Economic growth and economic development are directly proportional.

C Economic growth enables economic development.

D Economic growth is always sustainable.

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25 What is a trade-weighted exchange rate?

A the price of one currency against a basket of other currencies

B the price of one currency in terms of another

C the price of one currency in terms of its real purchasing power

D the price of one currency being determined by state intervention

26 The United Nations gives aid to a developing country so it can purchase vaccinations manufactured in India.

How is this aid characterised?

	characteristic 1	characteristic 2
A	bilateral	tied
B	bilateral	untied
C	multilateral	tied
D	multilateral	untied

27 What is a protectionist policy a government may use to reduce the deficit on the balance of payments of the current account?

A revaluation of the exchange rate

B increase in the rate of income tax

C increase in the rate of interest

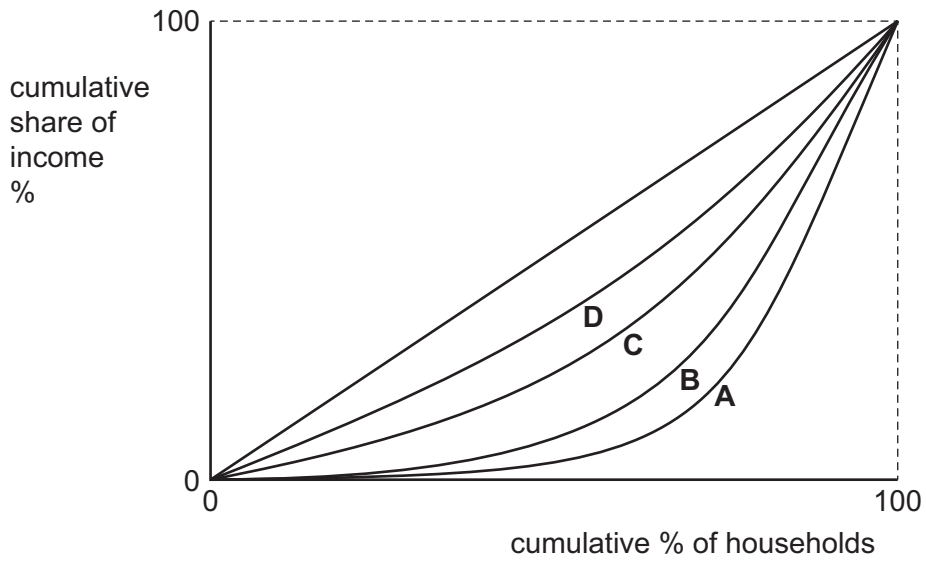
D introduction of import quotas

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28 The diagram shows a Lorenz curve of the distribution of income of households for a country.

Which curve shows the most equal distribution of income of households?



29 An economy has a large surplus on the current account of its balance of payments. It revalues its currency. The current account of the balance of payments becomes a greater surplus in the short run. In the long run the surplus becomes smaller and eventually becomes a deficit.

What is the sum of the price elasticities of imports and exports in the short run and in the long run?

	short run	long run
A	greater than 1.0	greater than 1.0
B	greater than 1.0	less than 1.0
C	less than 1.0	greater than 1.0
D	less than 1.0	less than 1.0

30 What is **not** a characteristic of an emerging economy?

A an agricultural sector with a growing % of GDP

B high birth rates

C high potential for growth

D increasing access to education

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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	A	Moral hazard: taking more risks because someone else (eg an insurer) bears the cost of those risks.
2	D	Slope of the budget line = Px ÷ Py, the ratio of the prices of the two goods.
3	C	Free market output is where MPC = MPB; at that output MSC is at V and MPC at X, so the marginal external cost is VX.
4	C	Economies of scale over the whole market make one firm the lowest-cost supplier: a natural monopoly.
5	C	MUx ÷ Px = 66 ÷ 2 = 33 and MUy ÷ Py = 33 ÷ 1 = 33 at 3X and 4Y; spending 3 × $2 + 4 × $1 = $10.
6	A	The socially optimal output is where MSC = MSB, so CBA recommends that output.
7	D	Sales maximisation is the highest output where AR = AC (only normal profit), output D.
8	B	A subsidy can lower price towards MC (P = MC) and correct underconsumption, helping allocative efficiency.
9	D	Nudge theory alters choices by persuasion and framing, not by laws or price changes.
10	B	A negative income tax pays a top-up to those below the threshold, so the lowest earners gain most: more equitable.
11	B	P2 is above the equilibrium price P1, so a maximum price at P2 is not binding and the price stays at P1.
12	D	A monopsonist pays a wage below MRP; a minimum wage can raise both wages and employment.

Question number		
13	B	Money held as idle cash is not deposited in banks, so less credit can be created and the money supply falls.
14	B	Abolishing the NMW lowers wages and tends to raise employment, so it does not explain rising unemployment.
15	B	With low confidence, firms and households save the extra income rather than spend it, so the multiplier effect is weak.
16	A	QE increases the money supply from MS1 to MS2 along LPI, so the rate of interest falls.
17	D	In a negative output gap actual output is below potential, so demand for labour falls and unemployment rises.
18	C	With spare capacity and Marshall-Lerner satisfied, devaluation improves the current account and raises growth and employment.
19	A	More frequent pay means smaller average money balances are needed for transactions, so demand shifts left.
20	C	Income moves from high earners (low MPC) to the unemployed (high MPC), so the average MPC rises.
21	C	Higher direct taxes cut disposable income and AD, so inflation falls and unemployment rises.
22	C	$0.3 + 0.3 < 1$, so Marshall-Lerner fails: net exports fall (demand-pull inflation decreases) but imported raw materials cost more (cost-push increases).
23	D	As unemployment falls the labour market tightens and AD is high, so wages and prices rise: inflation increases.
24	C	Growth raises incomes and tax revenue that can fund health and education, so growth enables development.
25	A	A trade-weighted (effective) exchange rate measures a currency against a weighted basket of currencies.
26	C	The UN is an international body (multilateral) and the aid must be spent on Indian vaccines (tied).

Question number		
27	D	Import quotas are a protectionist measure that directly limits imports; A, B and C are not protectionism.
28	D	The most equal distribution is the Lorenz curve closest to the 45° line of equality, curve D.
29	C	J-curve: in the short run the elasticities sum to less than 1 (surplus grows); in the long run more than 1 (surplus shrinks).
30	A	Emerging economies are industrialising, so agriculture's share of GDP falls, not rises.

Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/33**

Paper 3 A Level Multiple Choice **October/November 2025**

1 hour 15 minutes

You must answer on the multiple choice answer sheet.

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

INSTRUCTIONS

- There are **thirty** questions on this paper. Answer **all** questions.
- For each question there are four possible answers **A**, **B**, **C** and **D**. Choose the **one** you consider correct and record your choice in soft pencil on the multiple choice answer sheet.
- Follow the instructions on the multiple choice answer sheet.
- Write in soft pencil.
- Write your name, centre number and candidate number on the multiple choice answer sheet in the spaces provided unless this has been done for you.
- Do **not** use correction fluid.
- Do **not** write on any bar codes.
- You may use a calculator.

INFORMATION

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

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

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1 Why would an economy wish to achieve economic efficiency?

A to achieve an equal distribution of income

B to achieve full employment

C to ensure resources are not wasted

D to ensure international competitiveness

2 A firm has set a low price in the short run to act as a barrier to entry for new firms entering the market.

This is an example of which pricing strategy?

A limit pricing

B predatory pricing

C price discrimination

D price leadership

3 A dentist is found to have charged patients for treatment they did **not** need.

What is the likely cause of this market failure?

A a minimum price

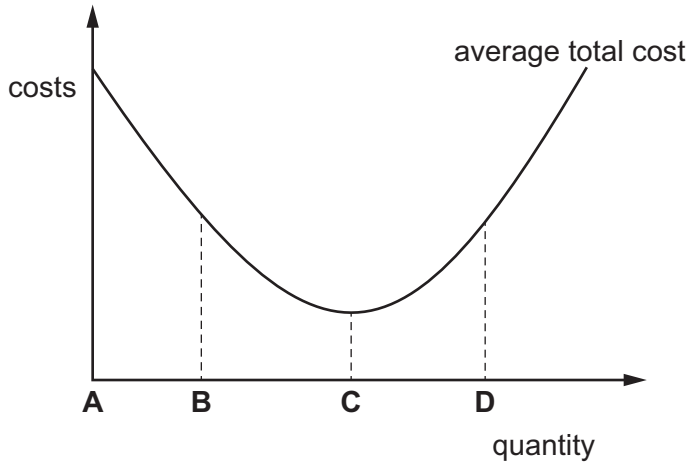
B asymmetric information

C non-excludability

D productive inefficiency

4 The diagram shows the average total cost for a firm.

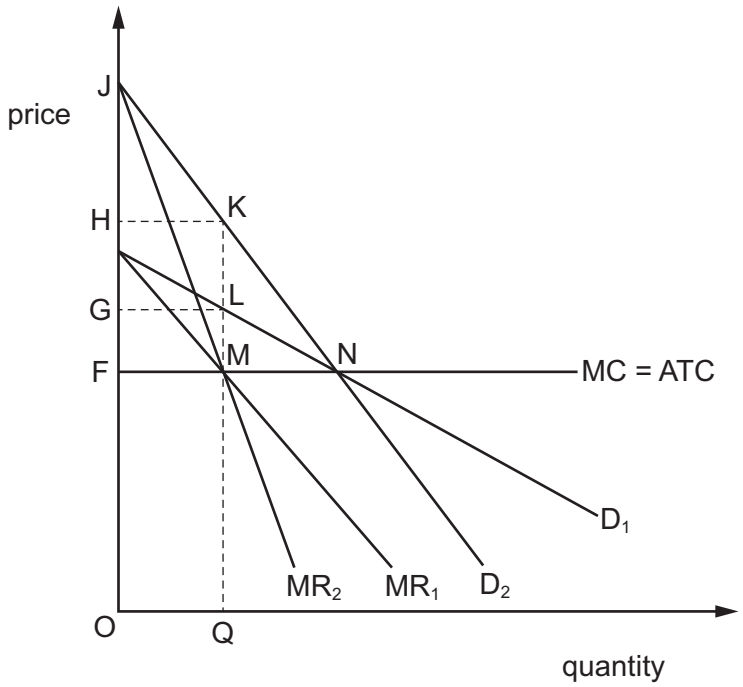
At what level of output does marginal cost exceed average total cost?



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5 The diagram shows the effect of a demand curve shift from D_1 to D_2 for a profit maximising firm.



What has happened to the firm's total revenue and the deadweight welfare loss?

	total revenue	deadweight welfare loss
A	decreases to OGLQ	decreases by KLN
B	decreases to OGLQ	increases by KLN
C	increases to OHKQ	decreases by KLN
D	increases to OHKQ	increases by KLN

6 A firm sells 10 000 units per month at a price of $10. The firm's total fixed cost is $40 000 per month. The firm makes only normal profit.

What is the average variable cost for this output?

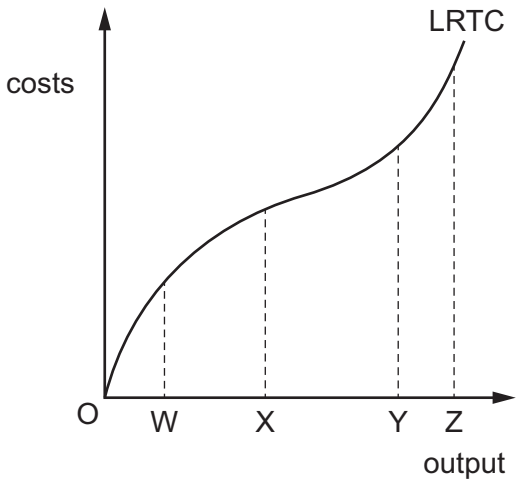
A $2.00 **B** $4.00 **C** $6.00 **D** $8.00

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7 The diagram shows the long-run total cost (LRTC) curve of a firm.



At which output is the long-run average total cost at its minimum?

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

8 Assuming there are no externalities, where would a nationalised firm set output to maximise social welfare?

A where average revenue equals average cost

B where average revenue equals marginal cost

C where marginal revenue equals marginal cost

D where marginal revenue is zero

9 There has been an increase in labour productivity.

Which combination of effects is most likely?

	shift of demand curve for labour	shift of supply curve for labour	effect on wage rate
A	none	inward	increase
B	none	outward	decrease
C	inward	none	increase
D	outward	none	increase

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10 Which method of government intervention may correct market failure caused by the under-consumption of a merit good?

A minimum price

B privatisation

C indirect taxation

D subsidy

11 Some governments introduce rent controls (maximum prices) on houses rented from private landlords. They impose such rent controls to improve living standards for individuals with low incomes.

What might be the effects of rent controls in the long run?

A The long-run supply of rental houses will contract.

B The number of unoccupied privately rented houses will increase over time.

C The price of owner-occupied houses will increase.

D There will be no effect on the supply of rental housing.

12 To reduce the damage done by cigarette smoking, the government of a country increases the indirect tax on cigarettes and makes it illegal to smoke in public.

Which combination of circumstances is most likely to result in government failure in its attempt to reduce the damage done by cigarette smoking?

	price elasticity of demand for cigarettes	government spending on law enforcement
A	> 1	high
B	> 1	low
C	< 1	high
D	< 1	low

13 Which stage of the business (trade) cycle is most likely to be characterised by an increasing negative output gap?

A boom

B recession

C recovery

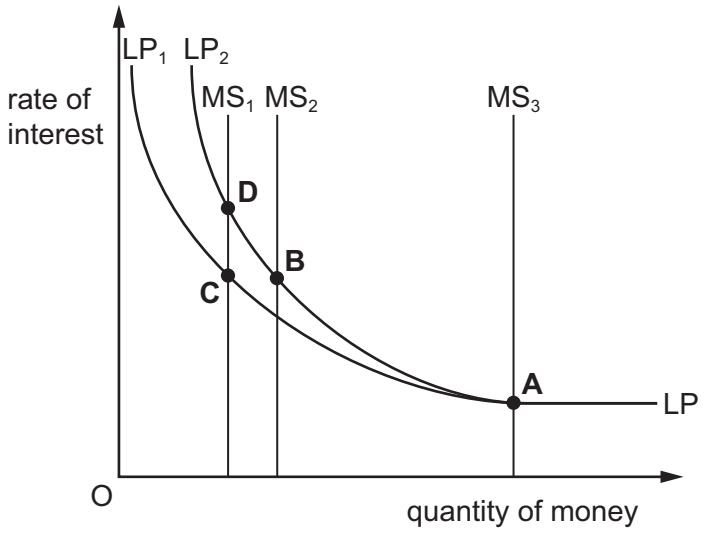
D trough

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14 Sometimes monetary policy is ineffective. The supply of money (MS) is assumed to be controlled by the central bank. The demand for money is LP. There has been an increase in real income in the economy.

Which position on the diagram makes expansionary monetary policy ineffective?



15 Which policy is most likely to lead to a reduction in the natural rate of unemployment?

A an increase in government expenditure on goods and services

B an increase in government expenditure on training schemes to address skill shortages

C an increase in the period when the unemployed are eligible for welfare benefits

D an increase in the minimum wage

16 On a diagram showing a production possibility curve, what definitely represents long-run economic growth?

A a change in the slope of the curve

B a movement from a point below the curve to a point on the curve

C a movement from one point to another along a given curve

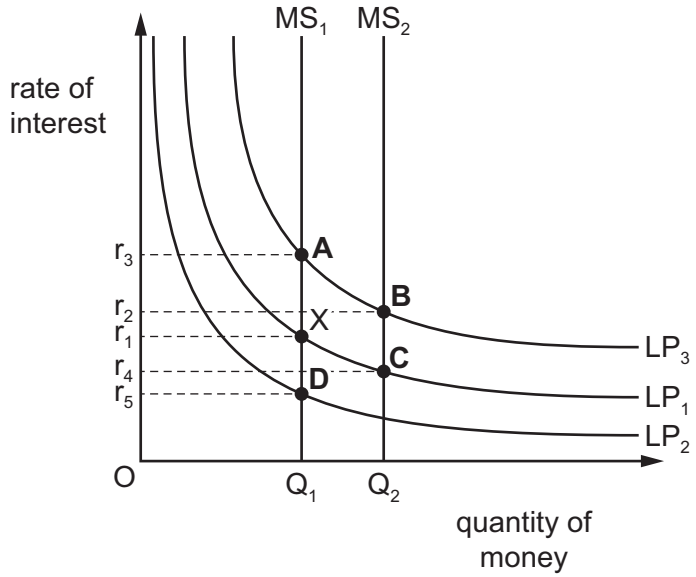
D an outward shift of the curve

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17 The diagram shows equilibrium in the money market at point X.

If there is an increase in the level of income in the economy, which point shows the new equilibrium in the short term?



18 Which combination of policies is most likely to reduce cyclical unemployment but might increase frictional unemployment?

	direct taxes	unemployment benefits
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

19 What would cause the short-run Phillips curve to shift to the right?

A the unemployment rate is above the natural rate of unemployment, decreasing inflationary expectations

B the unemployment rate is above the natural rate of unemployment, increasing inflationary expectations

C the unemployment rate is below the natural rate of unemployment, decreasing inflationary expectations

D the unemployment rate is below the natural rate of unemployment, increasing inflationary expectations

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20 Which macroeconomic policy is most likely to be used as a long-run means of reducing inflationary pressures?

A exchange rate policy

B fiscal policy

C supply-side policy

D monetary policy

21 The table identifies pairs of possible government aims. The achievement of aim 1 needs to be consistent with the achievement of aim 2.

Which row shows the combination where both aims are likely to be achieved.

	aim 1	aim 2
A	higher foreign exchange rate	lower rate of unemployment
B	low rate of inflation	current account surplus
C	more even distribution of income	higher rate of saving
D	rapid economic growth	sustainable economic development

22 The central bank of an economy decreases the money supply in an attempt to reduce inflation.

Under which conditions is this policy most likely to be effective?

	exchange rate	responsiveness of aggregate demand to interest rate changes
A	fixed	low
B	fixed	high
C	floating	low
D	floating	high

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23 A government reduces both the income tax paid by all earners and the amount of means-tested benefits paid to those receiving low or no incomes.

What is most likely to be its objective?

A a more equitable income distribution

B a reduction in the rate of inflation

C a reduction in the trade deficit

D an increase in the rate of economic growth

24 What is **not** a likely feature of a customs union?

A common external tariffs with non-member nations

B elimination of tariffs between member nations

C elimination of quotas between member nations

D shared common currency among member nations

25 A central bank officially lowers the price of its currency relative to an agreed rate in terms of other currencies.

What type of central bank policy is this?

A appreciation

B depreciation

C devaluation

D revaluation

26 Which combination of events would cause the biggest increase in real GDP per capita?

	GDP	population	general price level
A	rises	falls	falls
B	rises	falls	rises
C	rises	rises	falls
D	rises	rises	rises

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27 A low-income country receives aid from a high-income country.

When will this aid give maximum benefit in the long term to the low-income country?

	type of aid	purpose of the aid
A	grant	purchase of agricultural machinery
B	grant	payment of food subsidies
C	loan	purchase of agricultural machinery
D	loan	payment of food subsidies

28 Which variable is included in the calculation of **both** the Human Development Index (HDI) and the Multidimensional Poverty Index (MPI)?

A child mortality rate

B gross national income (GNI) per capita

C life expectancy at birth

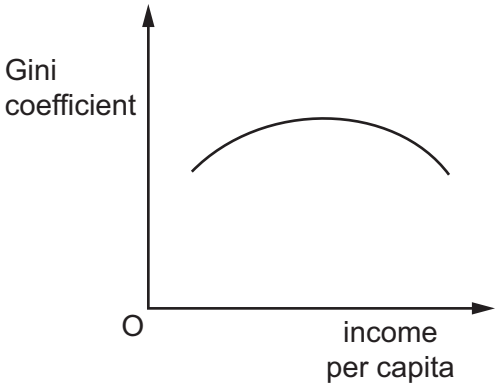
D years of schooling

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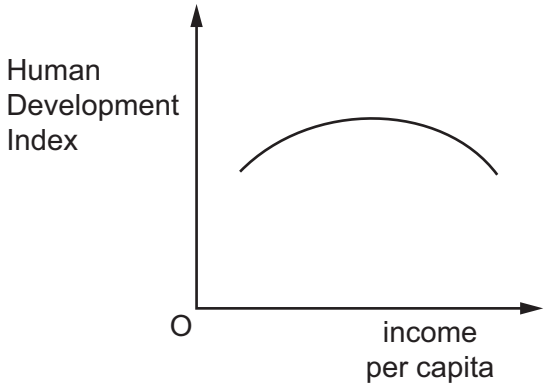
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29 Which diagram is **not** an example of a Kuznets curve?

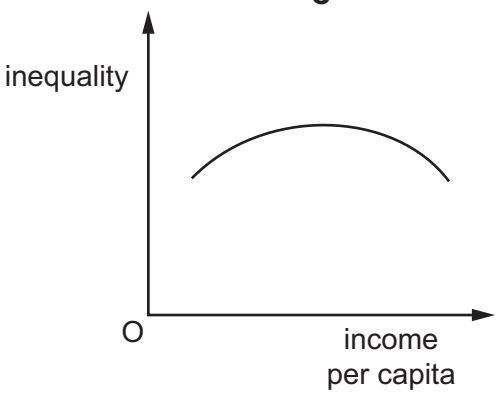
A



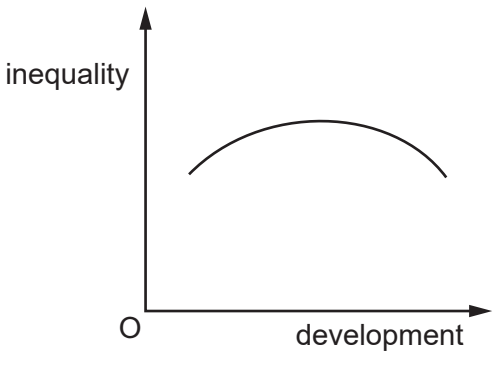
B



C



D



30 The table shows the value of the Gini coefficient for an economy from 2018 to 2020.

year	Gini coefficient
2018	0.29
2019	0.28
2020	0.27

What is most likely to explain the change in the value of the Gini coefficient between 2018 and 2020?

A an increase in indirect taxes

B an increase in long-term unemployment

C an increase in the national minimum wage

D an increase in population

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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	Economic efficiency means getting the most output from scarce resources, so resources are not wasted.
2	A	Setting a price low enough to deter entry, while still making some profit, is limit pricing.
3	B	The dentist knows more than the patient about the treatment needed: asymmetric information.
4	D	MC is above ATC to the right of the minimum point of ATC, so output D.
5	D	MR2 = MC at M, so Q is unchanged and price rises from G to H: TR rises to OHKQ; welfare loss rises from LMN to KMN, by KLN.
6	C	Normal profit: ATC = P = $10. AFC = $40 000 ÷ 10 000 = $4, so AVC = $10 − $4 = $6.
7	C	LRATC is lowest where a ray from the origin is tangent to LRTC (the flattest ray), at OY.
8	B	Social welfare is maximised at allocative efficiency, where P (AR) = MC.
9	D	Higher productivity raises MRP, so demand for labour shifts outward and the wage rises; supply is unchanged.
10	D	A subsidy lowers the price of the merit good and raises consumption towards the social optimum.
11	A	Rent below equilibrium makes letting less profitable, so landlords leave the market and long-run supply contracts.
12	D	Inelastic demand (< 1) means the tax barely cuts smoking, and low enforcement means the ban is ignored: government failure.
13	B	In a recession output falls further below potential, so the negative output gap

Question number		
		widens.
14	A	At A the LP curve is horizontal (liquidity trap), so a larger money supply cannot lower the interest rate.
15	B	Training removes skill mismatches, reducing structural unemployment and the natural rate.
16	D	Long-run growth is an increase in productive capacity, shown by an outward shift of the PPC.
17	A	Higher income raises the transactions demand for money (LP1 to LP3); MS1 is fixed, so the rate rises to r3 at A.
18	B	Lower direct taxes raise AD and cut cyclical unemployment; higher benefits may make people search longer (frictional).
19	D	Unemployment below the natural rate raises inflationary expectations, shifting the SRPC up (to the right).
20	C	Supply-side policy raises productive capacity (LRAS), easing inflationary pressure in the long run.
21	B	Low inflation makes exports more price competitive and imports relatively dearer, helping a current account surplus.
22	D	A floating rate appreciates as rates rise, reinforcing the effect, and AD that is responsive to interest rates falls more.
23	D	Lower income tax and smaller benefits raise incentives to work and invest, aiming for faster economic growth.
24	D	A shared common currency belongs to a monetary union, not a customs union.
25	C	A central bank officially lowering a fixed or pegged currency value is a devaluation.
26	A	Real GDP per head rises most when GDP rises, the price level falls (higher real value) and population falls.
27	A	A grant need not be repaid, and machinery raises productive capacity, giving

Question number		
		the greatest long-term benefit.
28	D	Years of schooling appear in both the HDI (education index) and the MPI (education dimension).
29	B	A Kuznets curve plots inequality against income or development; B plots HDI, not inequality.
30	C	The Gini coefficient fell (0.29 to 0.27), so inequality fell: a higher minimum wage raises the lowest incomes.

Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/34**

Paper 3 A Level Multiple Choice **October/November 2025**

1 hour 15 minutes

You must answer on the multiple choice answer sheet.

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

INSTRUCTIONS

- There are **thirty** questions on this paper. Answer **all** questions.
- For each question there are four possible answers **A**, **B**, **C** and **D**. Choose the **one** you consider correct and record your choice in soft pencil on the multiple choice answer sheet.
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- Do **not** use correction fluid.
- Do **not** write on any bar codes.
- You may use a calculator.

INFORMATION

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- Each correct answer will score one mark.
- Any rough working should be done on this question paper.

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1 What will act as a barrier to collusion between firms?

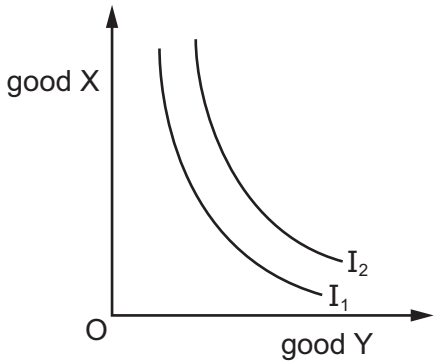
A an ability to detect price cuts by rivals

B the abolition of anti-trust measures

C the existence of a small number of firms in the industry

D unstable demand conditions for products

2 The diagram shows two indifference curves.



What do indifference curves indicate?

A Consumers get more satisfaction on curve I_1 from consuming more of X and less of Y.

B Consumers get more satisfaction on curve I_2 from consuming less of X and more of Y.

C Each point on the curve represents the marginal rate of substitution of good X for good Y.

D Movement from I_1 to I_2 cannot be made unless the indifference curves cross.

3 What is an example of forward vertical integration?

A A firm manufacturing computers merges with a firm that manufactures furniture.

B A firm manufacturing computers merges with a firm that manufactures silicon chips for computers.

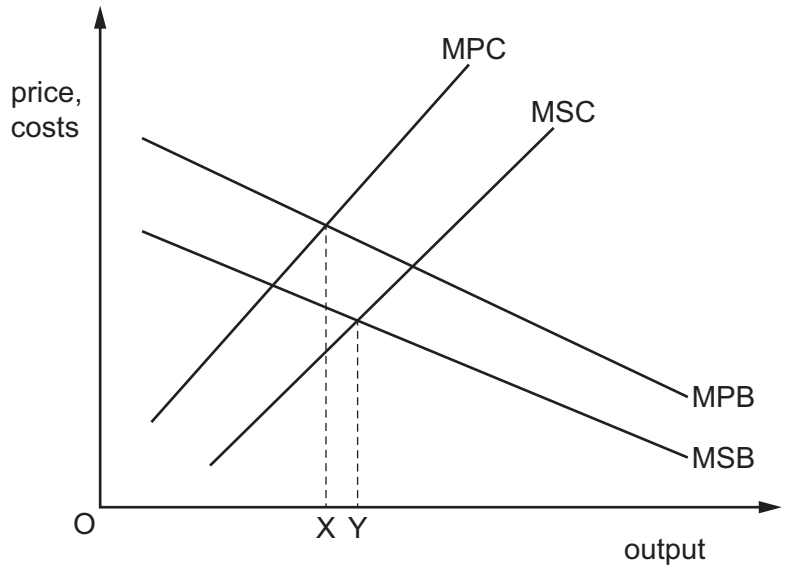
C A firm manufacturing computers merges with a retail outlet that sells computers.

D A firm manufacturing computers merges with another firm that also manufactures computers.

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4 The diagram shows positive and negative externalities of production and consumption.



Which row shows the correct combination of production and consumption externality when economic welfare is maximised?

	position of economic welfare	production externality	consumption externality
A	X	negative	negative
B	Y	positive	negative
C	X	negative	positive
D	Y	positive	positive

5 A firm has fixed costs of $300 and can produce two units per hour. Its total variable costs are $200 for one unit and $300 for two units.

Which cost will fall by the lowest amount when the second unit is produced?

A average fixed cost

B average total cost

C average variable cost

D marginal cost

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6 What is the most likely evidence that an economy has reached a position of Pareto optimality?

A price volatility

B a large current account deficit

C a regressive taxation system

D full employment

7 A firm is operating at a level of output which corresponds to the point where MR = 0.

What objective is the firm achieving?

A maximising consumer surplus

B maximising profit

C maximising sales

D maximising revenue

8 What is a potential benefit of the privatisation of a country's railway services?

A higher levels of competition

B higher costs passed on in the form of higher prices

C opportunity for government regulation

D potential for a private monopoly

9 Which of these actions illustrates equality rather than equity?

A A firm that installs ramps to its workplace to improve the access for people with disabilities.

B A government subsidy on rice of $0.10 per kilo for all members of the public.

C A university admissions policy that offers places to students from disadvantaged socio-economic backgrounds.

D An income tax system where high-income earners pay a higher percentage of income as tax.

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10 There is a decrease in the supply of female labour.

What will the likely effect on male and female wages be?

	male wages	female wages
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

11 A government introduces a national minimum wage.

What is **not** a benefit of this to the economy?

A It boosts the morale of workers and enhances labour productivity.

B It raises incomes of poorer workers.

C It reduces government spending on welfare payments.

D It reduces structural unemployment.

12 An increase in which variable would shift the supply curve for farm workers to the right?

A job security

B the hourly wage rate

C the productivity of farm workers

D the qualifications required

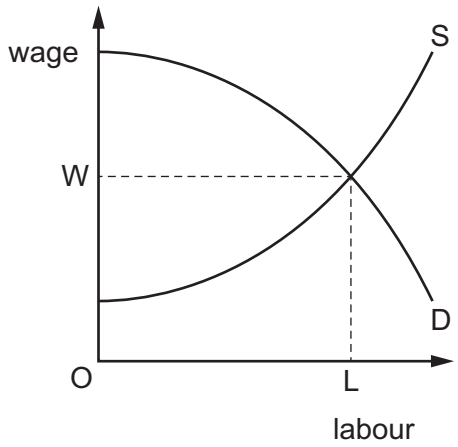
13 Which combination of policies is most likely to reduce the number of low-paid workers caught in the poverty trap?

	individual's tax-free allowance for income tax	national minimum wage in real terms
A	decrease	increase
B	decrease	unchanged
C	increase	increase
D	increase	unchanged

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14 The diagram represents the demand and supply of labour in a competitive industry.



What is true about unit of labour L when they are paid wage W?

A L is paid only economic rent.

B L is paid an element of economic rent and transfer earnings.

C L is paid below transfer earnings and leaves the industry.

D L is paid exactly transfer earnings and remains in work.

15 What leads to an inflationary gap?

A Aggregate demand is greater than the maximum potential output of the economy.

B Investment increases at a greater rate than profits received by a firm.

C The economy is operating below its full capacity.

D Innovation results in increased productivity in the economy.

16 An open economy has a positive output gap.

What is likely to be decreasing?

A expenditure on imports

B leisure time of workers

C nominal wage rates

D the general price level

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17 In a two-sector economy, autonomous consumer expenditure increases by $100 billion, autonomous investment expenditure increases by $200 billion, and the marginal propensity to consume is 0.5.

What will the increase in National Income be?

A $150 billion

B $300 billion

C $450 billion

D $600 billion

18 Which government policy is least likely to promote inclusive economic growth?

A increasing the national minimum wage

B investment in transport and infrastructure

C legislation reducing the power of trade unions

D using taxes and transfer payments to redistribute income

19 What is an example of a demand-side macroeconomic policy that would reduce cyclical unemployment?

A an increase in government spending on new infrastructure such as roads

B an increase in government spending on retraining workers

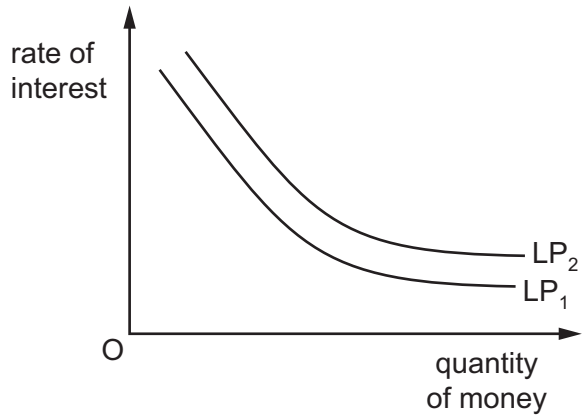
C a reduction in the rate of tax on imports

D an increase in the rate of tax on goods and services

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20 The diagram shows two liquidity preference curves LP_1 and LP_2.



What would cause the liquidity preference curve to shift from LP_1 to LP_2?

A There has been a fall in national income.

B There has been a rise in the general price level.

C There has been an increase in government borrowing.

D There has been an increase in the rate of interest.

21 What does the Phillips curve show?

A the relationship between economic growth and employment

B the relationship between inequality and income per capita

C the relationship between inflation and unemployment

D the relationship between prices and national income

22 A government is aiming to increase the role of market forces.

Which policy might achieve this?

A deregulation

B nationalisation

C price controls

D production quotas

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23 A country has a progressive income tax system.

What is **not** a valid reason for a government's decision to reduce the rate of income tax paid on higher incomes?

A to attract highly skilled workers from abroad

B to prevent tax evasion

C to provide work incentives

D to reduce income inequalities

24 A political party proposed a policy of quantitative easing (the creation of money by the central bank).

When would such a policy be least likely to destabilise the macroeconomy in the short run?

A when the economy was experiencing a high level of inflation

B when the economy had price stability but there was full employment of the labour force

C when there was a deep recession with high levels of unemployment

D when there was full employment and a current account balance of payments deficit

25 What does the Laffer curve show?

A the amount of tax revenue received at each tax rate

B the impact on the distribution of income after tax rates rise

C the rise in inflation following a fall in unemployment due to a cut in income tax

D the rise in poverty due to a rise in the basic rate of income tax

26 What are the variables identified on the axes of a Kuznets curve diagram?

	vertical (Y) axis variable	horizontal (X) axis variable
A	cumulative % of income	cumulative % of families
B	measure of inequality	income per capita
C	measure of standard of living	economic growth rate
D	income per capita	optimum population

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27 What might cause income inequality to worsen in a country?

A increased discrimination

B increased labour market participation

C increased skill level of workers

D increased welfare payments

28 A multinational company is planning to invest in a new factory in a low-income country.

What is **not** a possible benefit to the low-income country?

A acquiring improved technology

B better training for the workforce

C extra tax revenue for the government

D increased competition for small domestic producers

29 A country with fixed exchange rates faces a surplus on its current account.

Which policy is most desirable to maintain the fixed exchange rate?

A an increase in subsidies given to exporters

B the imposition of trade barriers on the import of non-essential goods

C the sale of foreign currencies in the foreign exchange market

D the use of expansionary monetary policy

30 Which criticism of foreign direct investment (FDI) is **least** valid?

A It encourages competition, reduces prices and forces the less efficient domestic firms to leave the market.

B It brings workers from its own country and provides only low paying jobs to low skilled local workers.

C It is usually withdrawn quickly in case of a global crisis, making developing countries more vulnerable to global shocks.

D Its actions often result in environmental degradation, and over exploitation of natural resources.

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

Question number

Paper 9708/34: Multiple choice answers

1	D	Unstable demand makes it hard to agree and keep to a price or output deal, so collusion breaks down.
2	C	Every point on an indifference curve gives equal satisfaction; its slope at each point is the MRS of X for Y.
3	C	Merging with a retailer moves the firm forward along the chain towards the consumer: forward vertical integration.
4	B	Welfare is maximised at Y, where MSC = MSB; MSC is below MPC (positive production) and MSB below MPB (negative consumption).
5	C	From 1 to 2 units: AFC 300 to 150 (−150), ATC 500 to 300 (−200), AVC 200 to 150 (−50), MC 200 to 100 (−100).
6	D	Pareto optimality needs all resources to be fully used, so full employment is the best evidence.
7	D	Total revenue is at its maximum when MR = 0: revenue maximisation.
8	A	Selling off a state monopoly can bring in new firms, so competition and efficiency rise.
9	B	The same $0.10 subsidy for everyone treats all equally (equality); A, C and D treat people according to need (equity).
10	D	Lower female supply raises female wages; firms substitute male labour, so demand for men rises and male wages rise too.
11	D	A minimum wage does not tackle skill mismatches, so it does not reduce structural unemployment.
12	A	Better job security is a non-wage benefit, so more workers are willing to work at each wage: supply shifts right.

Question number		
13	C	A higher minimum wage and a higher tax-free allowance both raise take-home pay from working, so fewer stay in the poverty trap.
14	D	L is the marginal worker on the supply curve, so W is exactly their transfer earnings and they stay in work.
15	A	An inflationary gap exists when AD exceeds the output the economy can produce at full employment.
16	B	In a positive output gap workers work longer hours and overtime, so leisure time falls.
17	D	Multiplier = 1 ÷ (1 − 0.5) = 2. ΔY = 2 × ($100bn + $200bn) = $600 billion.
18	C	Weaker trade unions tend to lower wages for low earners, so the gains from growth are shared less evenly.
19	A	Government spending on infrastructure raises AD (demand-side), reducing demand-deficient (cyclical) unemployment.
20	B	A higher price level means more money is needed for transactions, so liquidity preference shifts right to LP2.
21	C	The Phillips curve shows an inverse relationship between inflation and unemployment.
22	A	Deregulation removes rules and barriers to entry, giving market forces a bigger role.
23	D	Cutting the tax rate on higher incomes makes the system less progressive, so inequality widens, not falls.
24	C	In a deep recession there is spare capacity, so extra money raises output with little inflation.
25	A	The Laffer curve shows total tax revenue at each tax rate.
26	B	A Kuznets curve has income per head on the x-axis and a measure of inequality on the y-axis.
27	A	Discrimination lowers the pay and job chances of some groups, so income inequality worsens.

Question number		
28	D	More competition can drive small local firms out of business, so it is not a benefit.
29	D	A surplus pushes the currency up; expansionary monetary policy lowers interest rates, causing outflows and more imports.
30	A	Competition lowering prices and removing inefficient firms is a gain for consumers, so it is the least valid criticism.