Cambridge Assessment International Education

# Cambridge International AS & A Level

**ECONOMICS** **9708/32**

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

**1 hour 15 minutes**

You must answer on the multiple choice answer sheet.

*8420056437*

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

**INSTRUCTIONS**

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

**INFORMATION**

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

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


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**[Turn over**

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

**A** average cost

**B** average fixed cost

**C** average variable cost

**D** marginal cost

**2** What is an example of market failure?

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

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

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

**D** under-provision of a socially desirable good

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

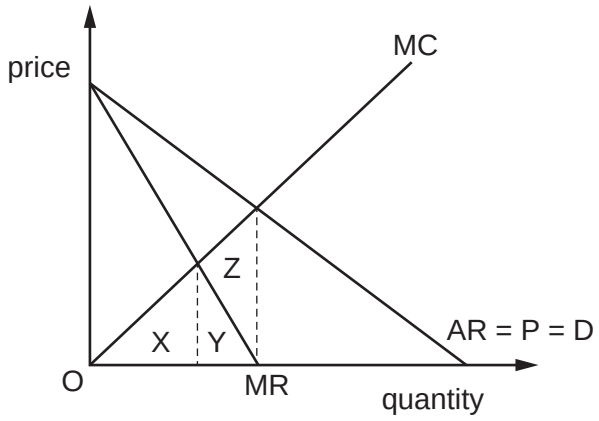
**A** a high concentration ratio

**B** a limit-pricing policy

**C** high fixed costs

**D** low barriers to entry

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




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

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

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

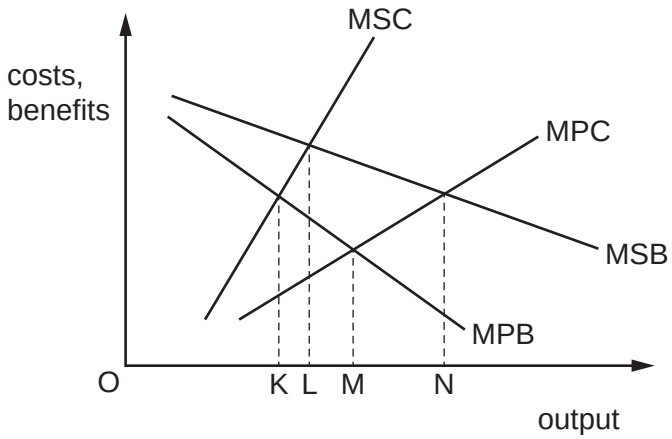
**A** Negative income effect and substitution effect move in opposite directions, leading to a steeper demand curve.

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

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

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

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




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

**A** from K to M

**B** from M to N

**C** from M to L

**D** from N to L

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

What are the most likely outcomes from this change?

| | allocative efficiency | dynamic efficiency | productive efficiency |
|---|---|---|---|
| **A** | improves | improves | improves |
| **B** | unchanged | improves | improves |
| **C** | improves | unchanged | unchanged |
| **D** | unchanged | unchanged | improves |

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

**A** decreased maximum price causing producers to leave the market

**B** higher guaranteed price encouraging suppliers to overproduce

**C** increased minimum wage leading to employers dismissing workers

**D** increased subsidies encouraging the consumption of a socially desirable product

**9** When does a more equal distribution of income occur?

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

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

**C** when the best use is made of scarce resources

**D** when there is an increase in the Gini coefficient

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

**A** Firms have a financial incentive to reduce pollution.

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

**C** Some firms cause less pollution than others.

**D** Taxes on pollution reduce negative production externalities.

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

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

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

**B** fewer drinks than originally forecast contained sugar

**C** most retailers did not increase the price of soft drinks

**D** the demand for soft drinks was price inelastic

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

Which policy should be used to achieve this aim?

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

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

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

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

**13** How is marginal revenue product calculated?

**A** marginal physical product × marginal revenue

**B** marginal physical product ÷ price

**C** total physical product × marginal cost

**D** total physical product ÷ marginal cost

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

Which statement is correct?

**A** Her economic rent as a teacher is $5000.

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

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

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

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**15** What does the accelerator principle explain?

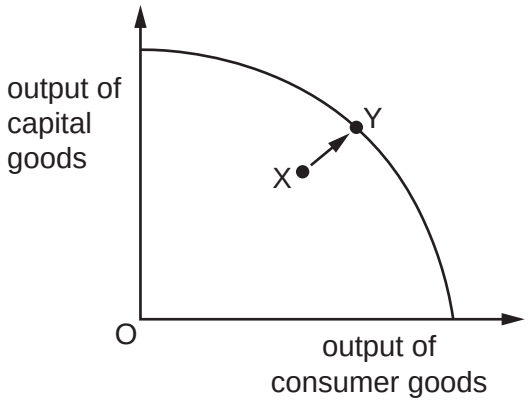
**A** how changes in consumption lead to changes in income

**B** how changes in income lead to changes in consumption

**C** how changes in income lead to changes in investment

**D** how changes in investment lead to changes in income

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




What causes a movement from point X to point Y?

**A** a positive output gap

**B** a recession

**C** actual economic growth

**D** potential economic growth

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

Which change would tend to reduce the value of V?

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

**B** an increase in interest rates

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

**D** a decrease in the use of credit cards by individuals

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

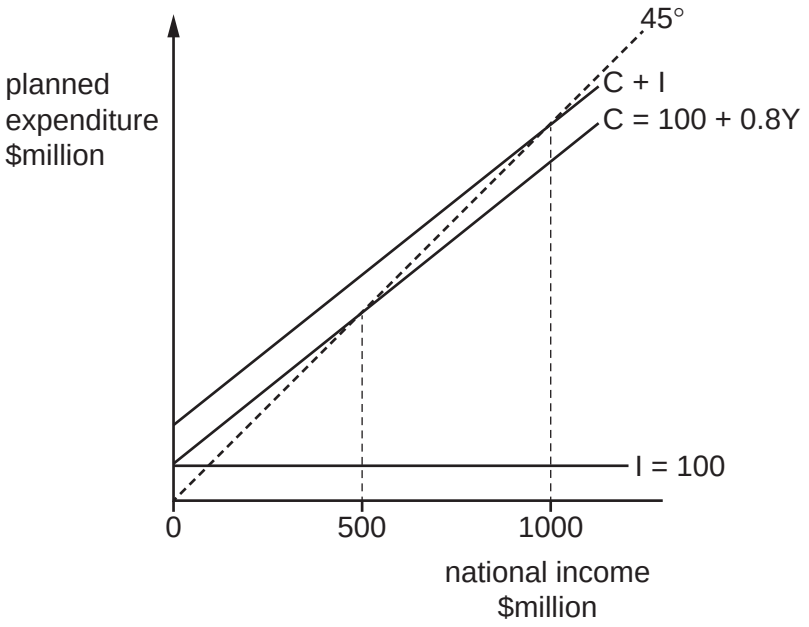
**A** a decrease in income tax that increases aggregate demand

**B** a decrease in unemployment benefit

**C** an increase in retraining schemes for the unemployed

**D** more advertising of employment vacancies in the economy

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




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

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

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

| | internal value of money | external value of money |
|---|---|---|
| **A** | falls | falls |
| **B** | falls | rises |
| **C** | rises | falls |
| **D** | rises | rises |

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**21** Which policy may increase economic growth without causing inflation?

**A** giving subsidies to producers

**B** increasing government spending

**C** lowering direct taxes

**D** lowering interest rates

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

What is a possible reason for this?

**A** a decrease in tax revenue

**B** export-led growth

**C** repayment of debts to other countries

**D** the import of new technology

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

**A** an increase in domestic inflation

**B** an increase in domestic interest rates

**C** an increase in incomes abroad

**D** an increase in tourists visiting the country

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

What is the likely consequence of this?

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

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

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

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

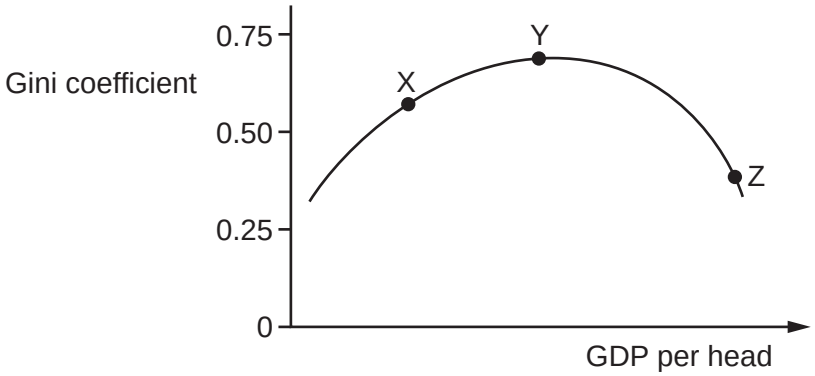
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**25** Which components are included in the current account and financial account of the balance of payments?

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

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

What can be concluded from the graph?




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

**B** Country X is the least developed country.

**C** Income is equally distributed in country Y.

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

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

**A** an improvement in labour productivity

**B** an improvement in the quality of capital and technology

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

**D** an increase in the availability of natural resources

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

**A** cooking fuel

**B** electricity

**C** medication

**D** water

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

**A** facilitating free trade among member countries

**B** providing assistance to member countries to plan fiscal policies

**C** providing bailout packages to countries facing external account challenges

**D** providing monetary assistance to member countries to build infrastructure

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

Which situation supports this claim?

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

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

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

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

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