Cambridge Assessment International Education

# Cambridge International AS & A Level

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

Paper 3 A Level Multiple Choice **May/June 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.

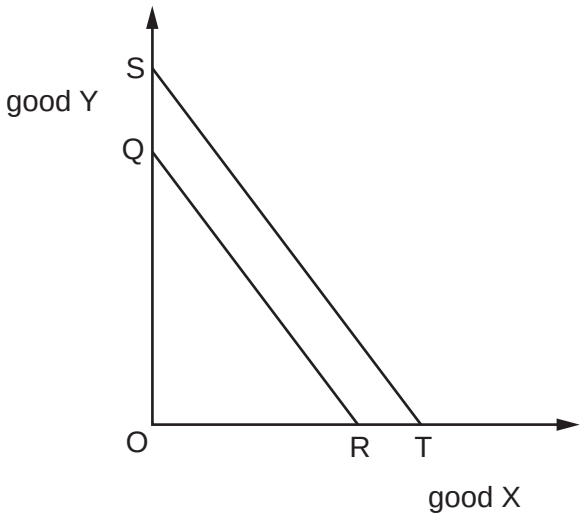
**INFORMATION**

- 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.



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**1** The diagram shows budget lines for an individual consumer.




What could explain the shift in the budget line from QR to ST?

**A** a decrease in the consumer's real income

**B** a decrease in the quality of both goods

**C** an increase in the consumer's money income

**D** an increase in the price of both goods

**2** When is allocative efficiency achieved?

**A** when a perfectly competitive market is in equilibrium

**B** when everybody who needs the product can obtain it

**C** when firms produce at the lowest possible cost

**D** when monopolistic firms make normal profits

**3** A consumer spends all of their income on only two goods, X and Y. The consumer is initially in equilibrium, maximising their total utility. The consumer's tastes change and they get less utility from consuming good Y. The prices of both goods are unchanged.

What would be a rational response from the consumer?

| | good X | good Y |
|---|---|---|
| **A** | buy less | buy more |
| **B** | buy more | buy less |
| **C** | buy more | unchanged |
| **D** | unchanged | buy less |

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**4** When might a moral hazard occur?

**A** When a consumer does not have full information about a product.

**B** When a person undertakes an activity that causes harm to another person.

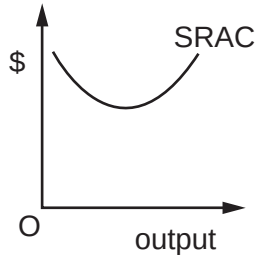
**C** When a person undertakes a risky activity, knowing another person bears the risk.

**D** When the seller of a product has more information than the buyer.

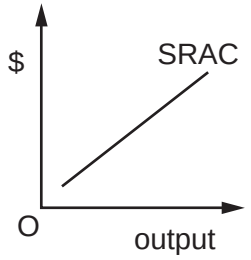
**5** The diagrams show four average cost curves.

Which diagram illustrates diseconomies of scale?

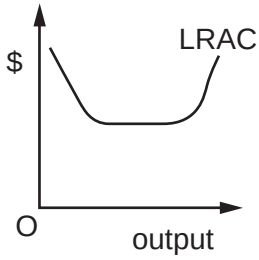
**A**



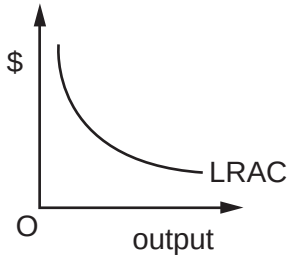

**B**




**C**




**D**




**6** What would enable a firm to increase its market share in a monopolistically competitive market?

**A** barriers to entry

**B** collusion

**C** lack of competition

**D** successful advertising

**7** Two manufacturing firms in the same industry, producing similar products, are considering merging together.

What would be the **least** convincing reason for merging?

**A** It would enable greater bargaining power when buying raw materials.

**B** It would enable technical economies of scale.

**C** It would produce savings in management and administration costs.

**D** It would reduce the dependence of the firms on the suppliers of raw materials.

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**8** The marginal social benefit of consuming a drink is less than the marginal private benefit.

What would be the best policy to improve resource allocation in this market?

**A** give a subsidy to the producers of the drink

**B** increase competition in the drink industry

**C** impose a maximum price for the drink above the market equilibrium price

**D** impose a per unit tax on the drink

**9** A country's government banned cigarette smoking in enclosed public spaces, such as offices, shops, bars and restaurants.

What is a government failure arising from this ban?

**A** decreased consumption of cigarettes by smokers

**B** decreased levels of passive cigarette smoking by non-smokers

**C** increased litter from used cigarettes outside offices and shops

**D** increased sales of cigarette substitutes like nicotine patches and gum

**10** A worker has a low wage. They have little incentive to earn extra income because they will pay more income tax and receive fewer means-tested benefits.

What describes this worker's situation?

**A** employment trap

**B** liquidity trap

**C** poverty trap

**D** unemployment trap

**11** What is **not** an outcome of the existence of private property rights?

**A** They encourage private owners to conserve property when its value is expected to rise.

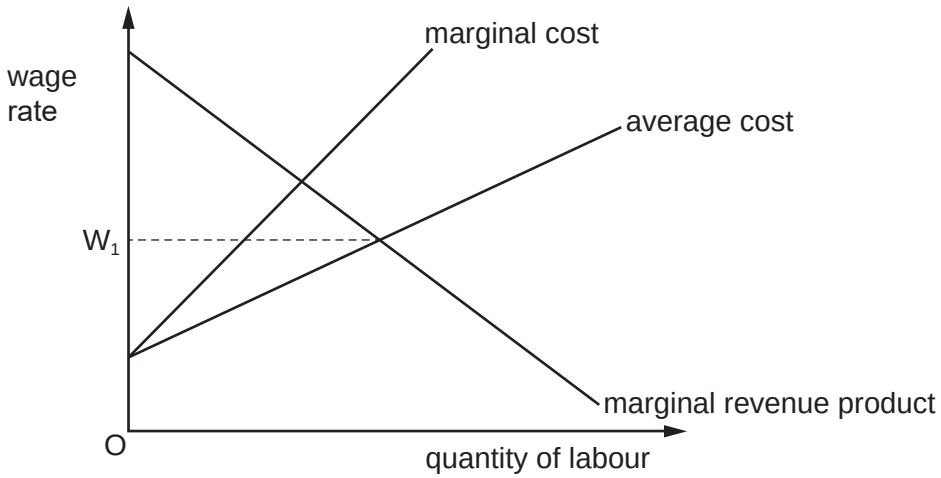
**B** They give private owners the incentive to manage their property carefully.

**C** They make private owners accountable for damage to others from property misuse.

**D** They prevent private owners gaining from using resources to benefit others.

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**12** The diagram shows the labour market for a profit maximising industry with a monopsony employer.




What will decrease if a minimum wage of $W_1$ is introduced?

**A** economic rent

**B** transfer earnings

**C** unemployment

**D** wages

**13** What is **not** a factor affecting the supply of labour?

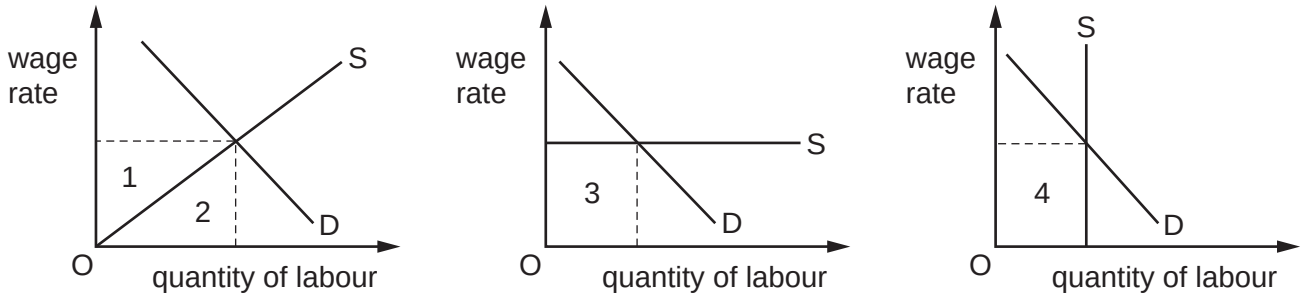
**A** emigration rates

**B** labour participation rate

**C** labour productivity

**D** unemployment benefits

**14** The diagrams show the demand for and supply of labour.




Which two areas represent transfer earnings?

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

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**15** An initial injection into the circular flow of income causes a much larger increase in GDP.

What does this define?

**A** autonomous investment

**B** demand-pull inflation

**C** the accelerator principle

**D** the national income multiplier

**16** An increase in a country's inflation rate causes real incomes to decline, but consumers decide to maintain their living standards.

What has increased?

**A** autonomous consumer spending

**B** autonomous saving

**C** induced consumer spending

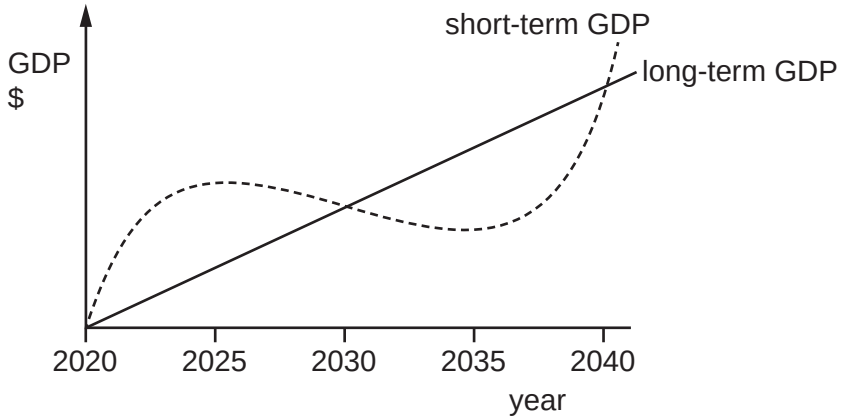
**D** induced savings

**17** Which combination of income tax and government benefit payment systems will produce automatic stabilisation?

| | income tax | benefit payments system |
|---|---|---|
| **A** | progressive | means tested |
| **B** | progressive | universal |
| **C** | regressive | means tested |
| **D** | regressive | universal |

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**18** The diagram shows the actual and forecast changes in GDP for a country between 2020 and 2040.




What is the longest period over which this country is expected to experience a recession?

**A** 2025 to 2030 **B** 2025 to 2035 **C** 2030 to 2035 **D** 2030 to 2040

**19** The diagram outlines the monetary transmission mechanism following quantitative easing. Key words have been omitted from the process.

central bank .....1..... government assets

↓

short-term interest rates .....2.....

↓

investment .....3.....

↓

real GDP rises

Which words complete gaps 1, 2 and 3?

| | 1 | 2 | 3 |
|---|---|---|---|
| **A** | buys | fall | rises |
| **B** | buys | rise | rises |
| **C** | sells | fall | rises |
| **D** | sells | fall | falls |

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**20** A government decreases interest rates to reduce unemployment but finds this has little effect due to hysteresis.

What causes this hysteresis?

**A** capital investment increases

**B** fewer people are encouraged to save

**C** skills of unemployed workers become outdated

**D** the money supply increases

**21** In a closed economy, the central bank raises interest rates to reduce an increasing rate of inflation.

Which macroeconomic policy objective is this targeting?

**A** a surplus on the current account of the balance of payments

**B** faster economic growth

**C** full employment

**D** stable prices

**22** A government sets a target for the annual rate of inflation to be no more than 3%.

Which circumstances would make it **difficult** to achieve the target?

**A** if devaluation of the currency leads to a trade surplus

**B** if interest rates are increased to control effective demand

**C** if the government increases its tax revenue

**D** if wage increases are kept in line with productivity

**23** The central bank of a country decreases interest rates.

What are the likely consequences?

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

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**24** What is the most likely consequence when there is an increase in the national debt?

**A** the creation of additional money

**B** a current account deficit on the balance of payments

**C** a surplus in the government's budget

**D** the crowding out of private sector investment

**25** Which policy will help to reduce income inequality?

**A** to increase indirect taxes

**B** to increase trade union power

**C** to increase the rate of interest

**D** to reduce welfare payments

**26** The value of the currency of an open economy with a fixed exchange rate is significantly below its purchasing power parity value.

If the economy decides to adopt a floating exchange rate, which of its macroeconomic policy aims is most likely to benefit?

**A** low inflation

**B** low unemployment

**C** reduced deficit on the current account of the balance of payments

**D** steady economic growth

**27** Which policy will help to correct a deficit on the current account of the balance of payments?

**A** decreasing direct taxes

**B** decreasing government regulations

**C** increasing exchange rates

**D** increasing government spending

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**28** The table shows possible changes in population, the rate of inflation and the number of years of education.

Which combination would lead to an increase in both real GDP per capita and the Human Development Index?

| | population | rate of inflation | number of years of education |
|---|---|---|---|
| **A** | falls | falls | rises |
| **B** | falls | rises | rises |
| **C** | rises | falls | falls |
| **D** | rises | rises | rises |

**29** The following are four conditions sometimes attached to IMF loans to low-income countries.

Which condition would conflict with the ‘infant industry’ argument?

**A** the need to allow free trade

**B** the need to control inflation

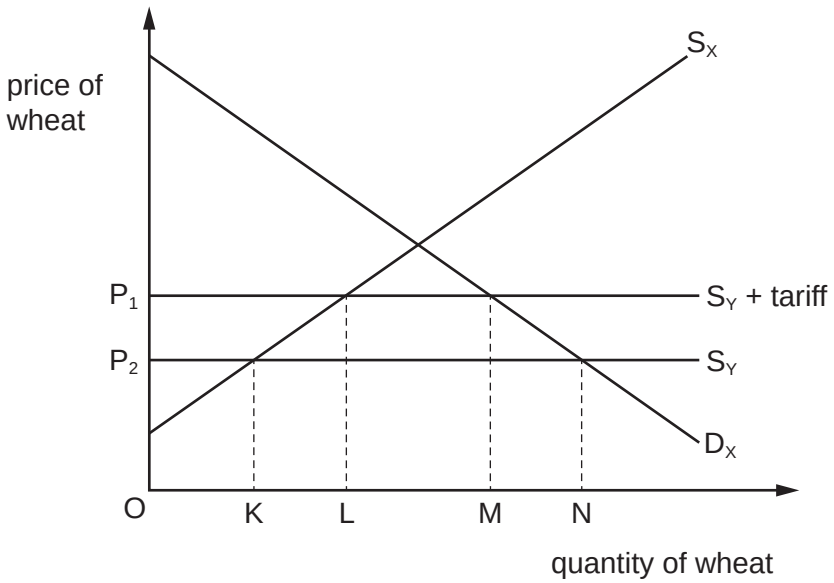
**C** the need to have a contractionary fiscal policy

**D** the need to privatise government enterprises

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**30** Countries X and Y form a customs union which leads to a removal of tariffs between the countries.

The diagram shows the effect on the market for wheat in country X.




How much wheat is imported into country X from country Y before and after the customs union?

| | before customs union | after customs union |
|---|---|---|
| **A** | KL | MN |
| **B** | KL | KN |
| **C** | LM | MN |
| **D** | LM | KN |

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