



Cambridge International AS & A Level

ECONOMICS

9708/31

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.

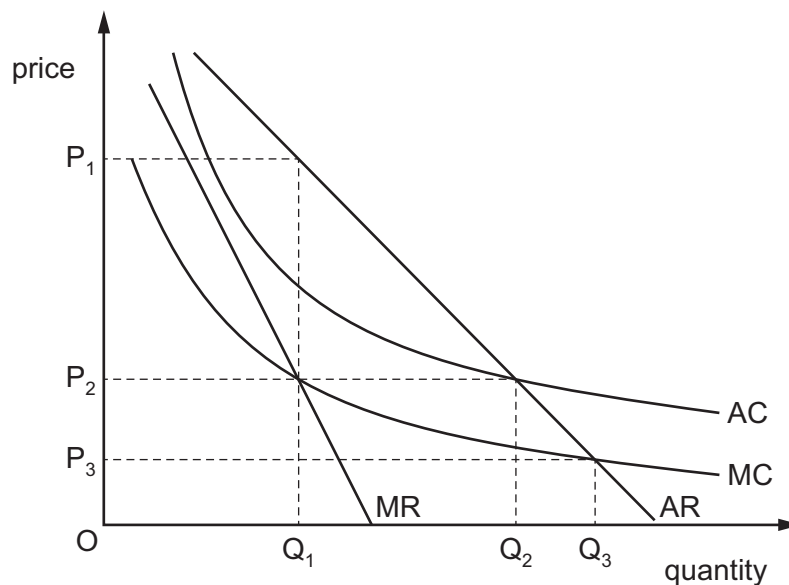
This document has **12** pages.



1 What is the equi-marginal principle?

- A As consumption of a product increases, the satisfaction from consumption of the product decreases by an equal amount.
- B Consumers maximise utility where their marginal valuation for each product consumed is the same.
- C The total satisfaction received by consumers from consumption of a product is constant.
- D The marginal utility derived by consumers from the consumption of one more unit of a product is constant.

2 The diagram shows the cost and revenue curves for a natural monopoly.



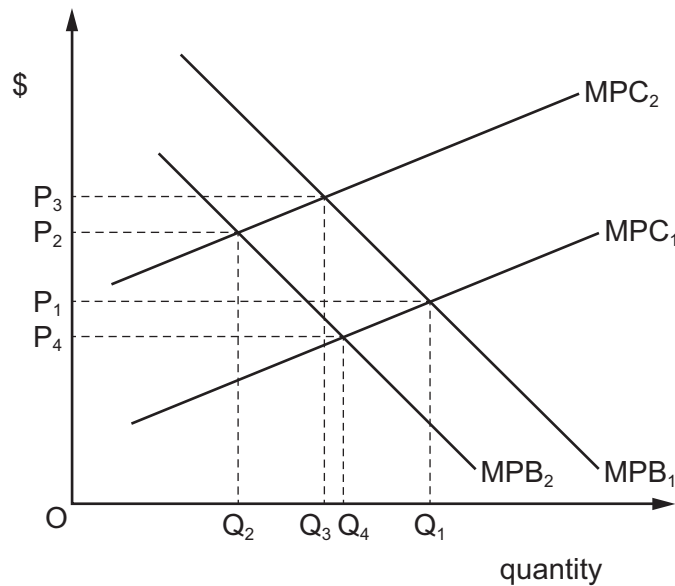
Which statement is correct?

- A P_2 and Q_2 will achieve both allocative efficiency and productive efficiency.
- B P_2 and Q_1 will achieve productive efficiency but not allocative efficiency.
- C P_3 and Q_3 will achieve allocative efficiency but not productive efficiency.
- D P_3 and Q_3 will achieve both allocative efficiency and productive efficiency.

3 What would **not** affect the budget line of an individual consumer?

- A the individual's preference for various goods
- B the level of income tax
- C the money prices of goods
- D the incomes earned by the individual

- 4 The diagram shows the marginal private costs (MPC) and marginal private benefits (MPB) of a product. Consumers initially estimate that marginal private costs are at MPC_1 and marginal private benefits are at MPB_1 .

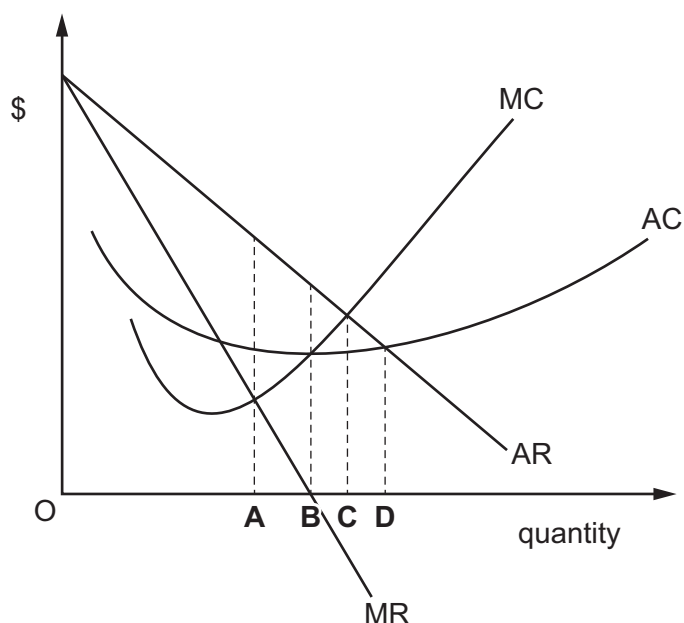


What is the impact on the market demand for the product if the consumer realises they have underestimated the MPC of buying the product but **not** the MPB?

- A The consumer underconsumes the product by Q_1Q_2 .
 - B The consumer underconsumes the product by Q_1Q_3 .
 - C The consumer overconsumes the product by Q_1Q_3 .
 - D The consumer overconsumes the product by Q_1Q_4 .
- 5 What is an internal economy of scale?
- A efficient local transport networks
 - B improved access to spare parts as a result of industry growth
 - C lower risks from supplying a wider range of customers
 - D the training of skilled labour at a college financed by local firms

- 6 The diagram shows the costs and revenue for a monopoly.

Which level of output would produce only a normal profit?



- 7 Which combination of statements about small firms and large firms is most likely to be correct?

	small firms	large firms
A	are more common in manufacturing than in services	face high barriers to exit
B	are more numerous than large firms	do not experience diseconomies of scale
C	can do well when each item produced is different	may arise from internal growth or mergers
D	cannot have any monopoly power	cannot earn supernormal profits

- 8 Good X is a popular product that creates a negative externality when it is consumed.

The government wants to reduce the consumption of good X significantly.

Under which circumstances is the government most likely to meet its aim?

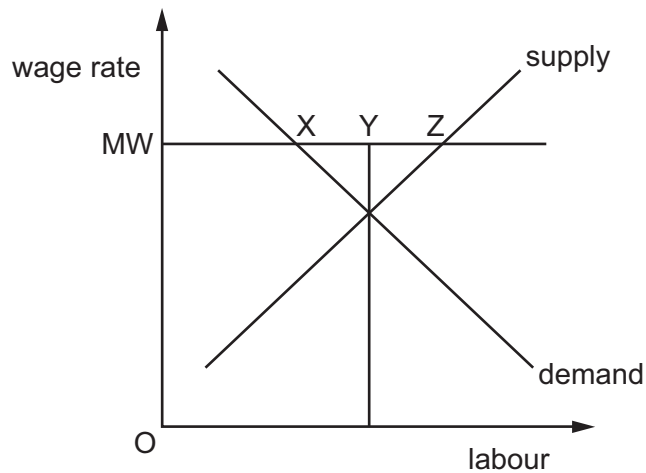
	government policy	price elasticity of demand for good X
A	subsidy	more than 1
B	subsidy	less than 1
C	indirect tax	more than 1
D	indirect tax	less than 1

- 9 A government introduces tradeable pollution permits to reduce pollution.

What is an advantage of this scheme?

- A** It allows consumers to determine the optimum pollution level.
 - B** It can provide rewards for firms that reduce pollution.
 - C** It enables the government to raise revenue from the resale of permits.
 - D** It uses the market system with no administrative costs.
- 10 To reduce traffic congestion, a government built a new highway. A majority of the citizens were opposed to this. Some citizens responded by switching from public transport to private cars. This caused car journeys to take even longer.
- What can be concluded about government failure in this case?
- A** It occurred because the government's opportunity costs were not considered.
 - B** It occurred because the wishes of the majority of citizens were ignored.
 - C** It occurred because the result was unintended.
 - D** It occurred from over-reliance on the market system.
- 11 What could result in an individual being caught in the poverty trap if their income increases?
- A** national minimum wage is changed
 - B** benefits payments are means-tested
 - C** subsidised housing payments for low-income earners are increased
 - D** the income level at which income tax is first paid is increased

- 12** The diagram shows the impact on the labour market of the introduction of a national minimum wage (MW).

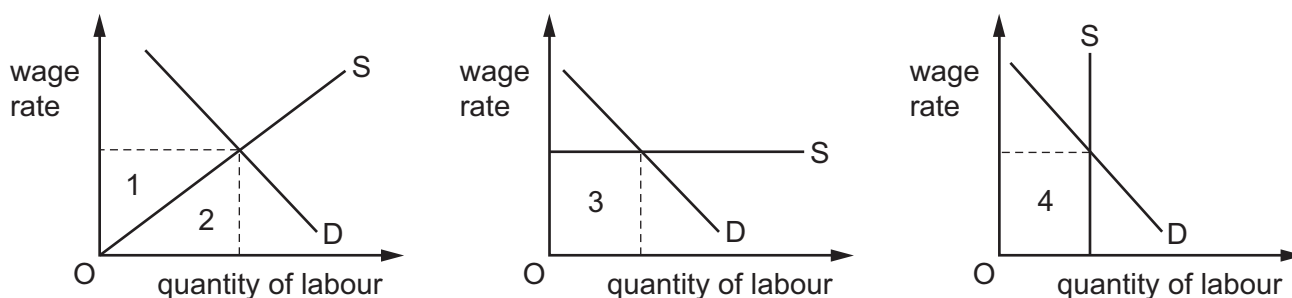


What do the distances XY and YZ represent?

	XY	YZ
A	increase in employed workers	existing workers made redundant
B	existing workers made redundant	unemployed new entrants
C	existing workers made redundant	increase in employed workers
D	unemployed new entrants	existing workers made redundant

- 13** What is an example of 'nudge' theory as applied to the prevention of tax evasion?
- A** employing an extensive administration to ensure detection of evasion
 - B** imposing heavy penalties on those who do evade tax
 - C** providing information to taxpayers about the undesirable effects of tax evasion
 - D** requiring employers to inform the tax authorities of workers' pay

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



Which two areas represent economic rent?

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

15 In an economy with no government sector or foreign trade, the marginal propensity to consume is 0.6.

If the equilibrium level of national income is \$10 000 million and the full employment level of national income is \$15 000 million, by how much would investment have to increase to achieve full employment?

- A** \$1666 million
B \$2000 million
C \$3012 million
D \$5000 million

16 What is a definition of hysteresis unemployment?

- A** people who become temporarily unemployed because it takes a short period of time to find a job after they leave school
B people who become unemployed when there is a recession but who will find employment as the economy comes out of recession
C people who become unemployed for a long period of time due to a loss of job skills and work experience while unemployed
D people who become unemployed when established firms close and new firms are created as technology advances

- 17 An economy has a positive output gap.

What is happening to economic growth and the general price level?

	economic growth	general price level
A	above trend growth rate	falling
B	above trend growth rate	rising
C	below trend growth rate	falling
D	below trend growth rate	rising

- 18 What is a factor affecting the occupational mobility of labour?

- A** education and training
- B** immigration controls
- C** price of housing
- D** transport infrastructure

- 19 A country's government decides to set artificially low interest rates.

What describes a **negative** consequence to this country of this policy?

- A** a higher rate of consumer price inflation
- B** a rapid growth in gross domestic product
- C** an increase in investment by manufacturers and real estate developers
- D** a reduction in borrowing by consumers

- 20 According to the quantity theory of money, which combination would result in the general level of prices remaining unchanged?

	money supply	total number of transactions	velocity of circulation
A	remains unchanged	remains unchanged	rises by 3%
B	rises by 3%	remains unchanged	rises by 3%
C	rises by 3%	rises by 3%	remains unchanged
D	rises by 3%	rises by 3%	rises by 3%

- 21** A government increases its inflation rate target from 3% to 5%.

What is a likely reason for this?

- A** to increase economic sustainability
- B** to increase saving
- C** to reduce a balance of payments deficit
- D** to reduce unemployment

- 22** What would be a macroeconomic policy objective for a government in a developed economy?

- A** to improve sustainability
- B** to provide public goods
- C** to reduce the power of trade unions
- D** to subsidise the electricity supply industry

- 23** An economy is at its natural rate of unemployment.

Under which circumstances will an increase in government spending aimed at reducing unemployment be most likely to conflict with a government's objective of low inflation?

- A** if inflationary expectations are unchanged
- B** if inflationary expectations fall
- C** if labour productivity increases
- D** if labour supply increases

- 24** An economy imports a large proportion of its raw materials. Its exchange rate depreciates.

What is the impact on the external and internal value of money?

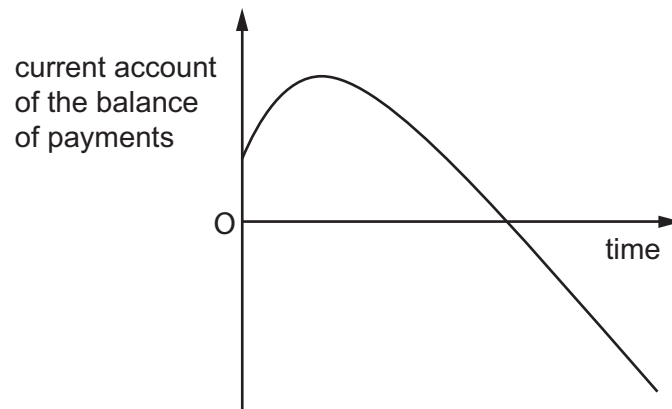
	external value of money	internal value of money
A	rises	rises
B	rises	falls
C	falls	rises
D	falls	falls

- 25 A country's government imposes a tariff on steel imports.

What is the likely impact of this tariff on this country's economy?

- A It will make this country's steel exports more price competitive.
 - B It will lead to productive inefficiency in this country's steel industry.
 - C There will be an improvement in this country's terms of trade.
 - D There will be a decrease in producer surplus for this country's steel producers.
- 26 Which measurement is **not** included in the calculation of the Human Development Index?
- A average years of schooling
 - B Gross National Income per capita
 - C infant mortality rate
 - D life expectancy at birth

- 27 The diagram shows the impact of a revaluation of a country's exchange rate on the current account of the balance of payments.



The table gives the price elasticity of demand for imports, PED_M , and the price elasticity of demand for exports, PED_X , in both the short run and the long run.

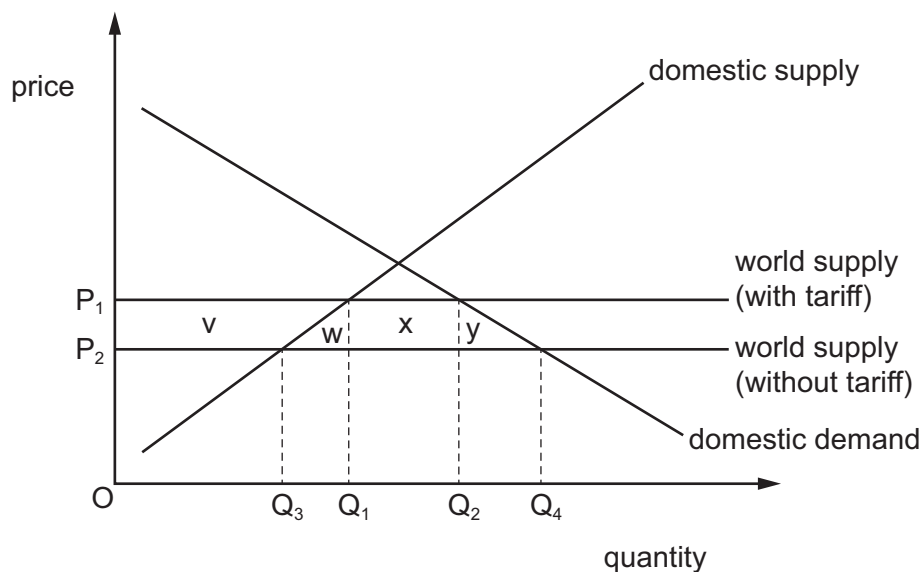
Which combination of short run and long run elasticities will give the shape shown in the diagram?

	short run		long run	
	PED_M	PED_X	PED_M	PED_X
A	0.2	0.2	0.4	0.4
B	0.4	0.4	0.8	0.8
C	0.8	0.8	1.2	1.2
D	1.2	1.2	1.6	1.6

- 28 What is **not** a function of the International Monetary Fund (IMF)?

- A** to encourage exchange rate stability
- B** to provide financial assistance for a country with failed economic policies
- C** to provide funds for a water purifying plant in a developing country
- D** to provide loans for countries following a natural disaster

29 The diagram shows the effect of trade creation if a tariff is removed.



Which areas show the total net gain to the domestic economy?

- A v, w, x and y
 - B v, w and x only
 - C w and x only
 - D w and y only
- 30 What is most likely to prevent a developing country from achieving economic development?
- A increased allocation of resources to production of goods that have a high income elasticity of demand
 - B increased government legislation for the protection of employment
 - C increased tax allowances on firms investing in research and development
 - D the decision of developed countries to increase quotas for goods produced by developing countries

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