Cambridge Assessment International Education

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.

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1 What is the equi-marginal principle?

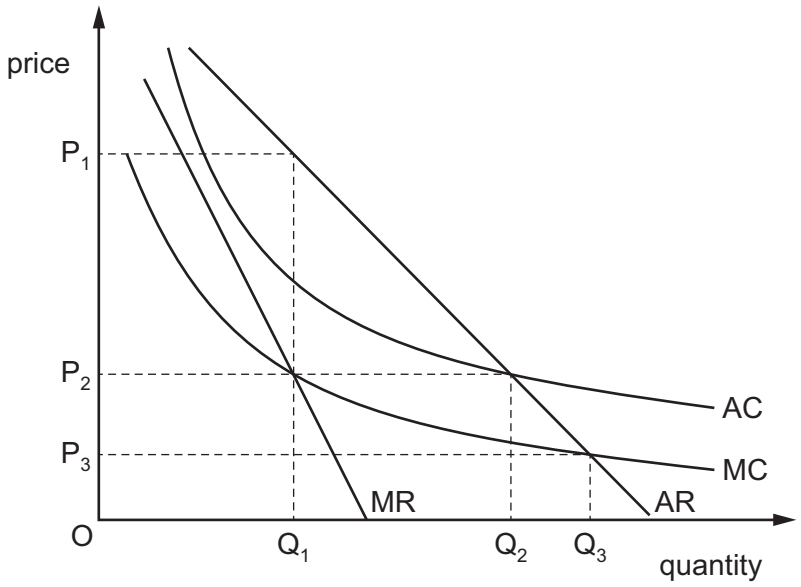
A As consumption of a product increases, the satisfaction from consumption of the product decreases by an equal amount.

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

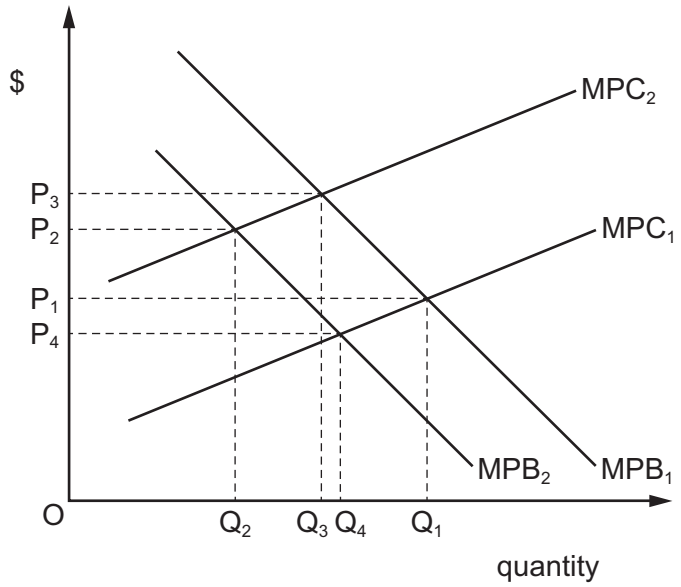
B the level of income tax

C the money prices of goods

D the incomes earned by the individual

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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

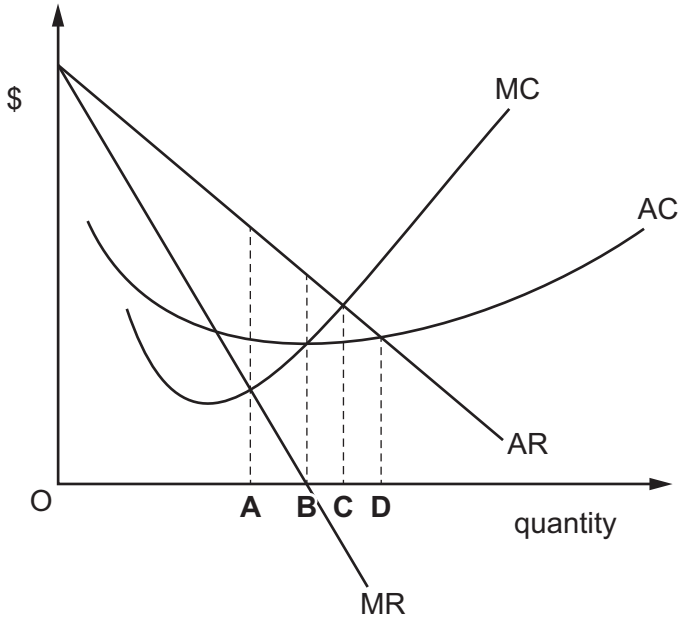
C lower risks from supplying a wider range of customers

D the training of skilled labour at a college financed by local firms

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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

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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

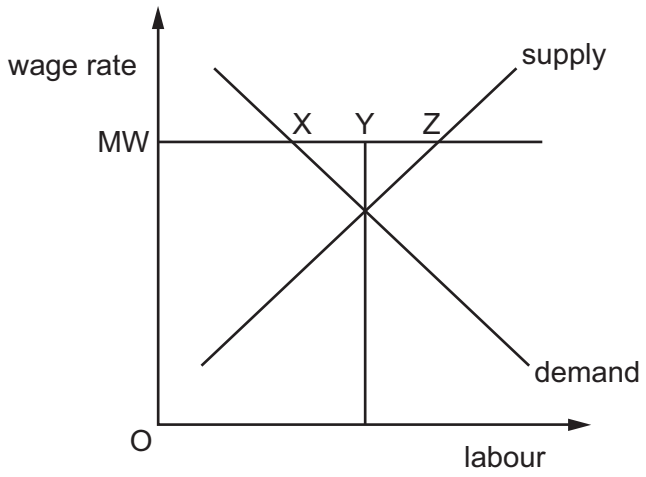
B benefits payments are means-tested

C subsidised housing payments for low-income earners are increased

D the income level at which income tax is first paid is increased

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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

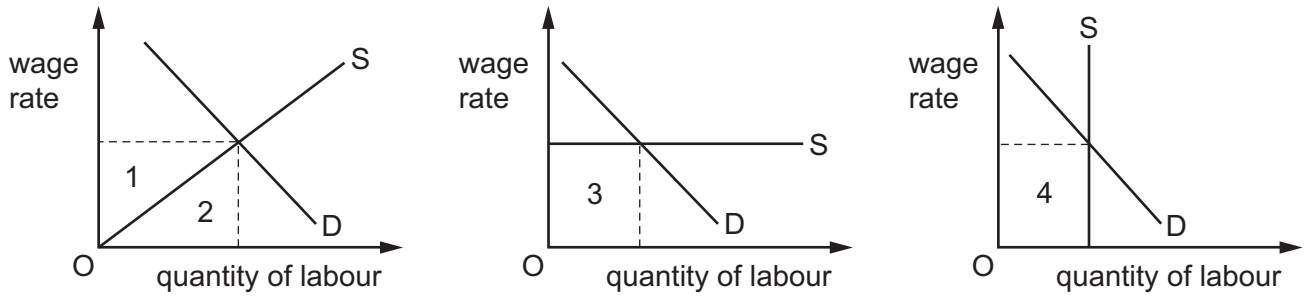
B imposing heavy penalties on those who do evade tax

C providing information to taxpayers about the undesirable effects of tax evasion

D requiring employers to inform the tax authorities of workers' pay

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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

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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%

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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

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[Turn over

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

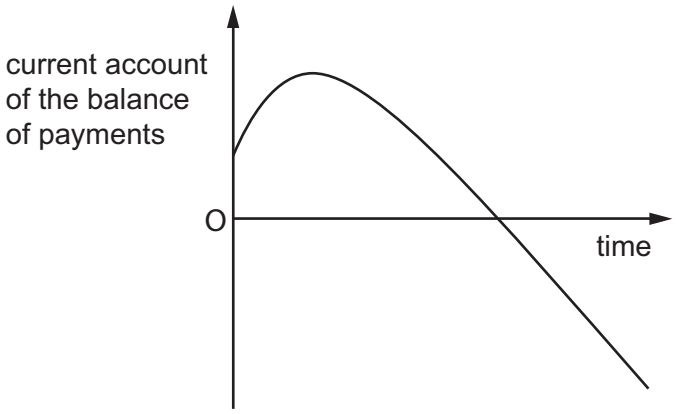
B Gross National Income per capita

C infant mortality rate

D life expectancy at birth

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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

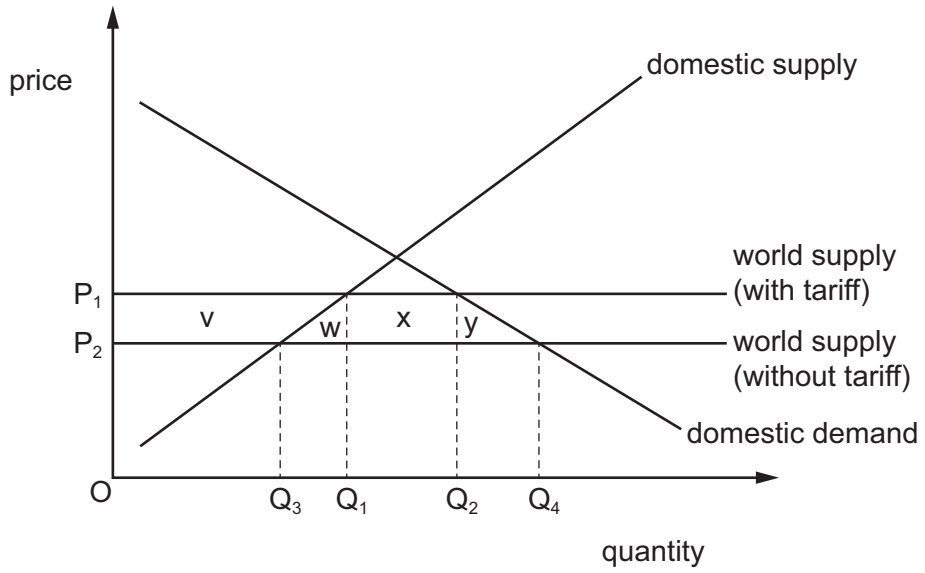
C to provide funds for a water purifying plant in a developing country

D to provide loans for countries following a natural disaster

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[Turn over

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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