



# Cambridge International AS & A Level

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## ECONOMICS

9708/31

Paper 3 A Level Multiple Choice

May/June 2024

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.
- 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

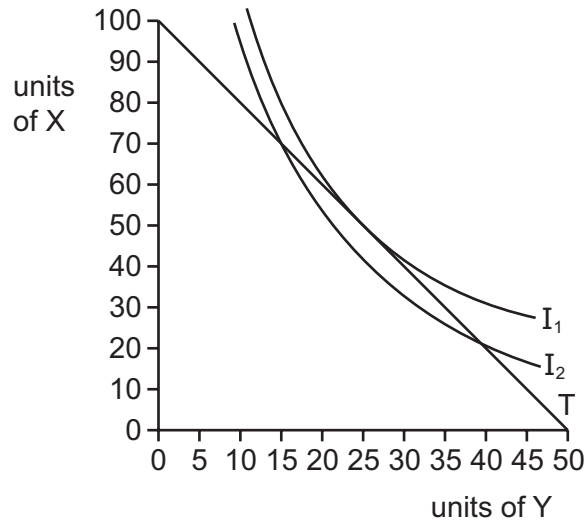
- The total mark for this paper is 30.
- Each correct answer will score one mark.
- Any rough working should be done on this question paper.

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



- 1 Which statement about the concept of utility is correct?
- A** Diminishing marginal utility means that producers become less efficient the more they produce.
- B** If marginal utility is above average utility, average utility must be rising.
- C** The equi-marginal principle says that a consumer gets equal total satisfaction from each item purchased.
- D** Total utility continually rises as the level of consumption rises.
- 2 The diagram shows indifference curves  $I_1$ ,  $I_2$  and a budget line  $T$ .



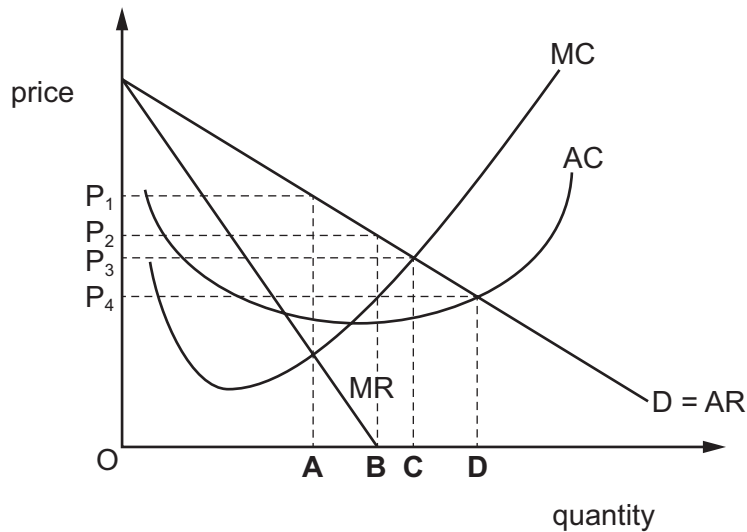
Which combination of X and Y gives the consumer maximum satisfaction?

	units of X	units of Y
<b>A</b>	100	0
<b>B</b>	70	15
<b>C</b>	50	25
<b>D</b>	20	40

- 3 A medical team provides vaccinations for children to prevent an outbreak of an infectious disease.
- Why would this be described as a positive externality?
- A** Additional benefit might be gained as the disease no longer spreads.
- B** Any kind of medical help will improve the condition of the children.
- C** No action would be taken unless the medical team intervened.
- D** The social benefits of vaccination are less than the social costs.

- 4 The diagram shows the cost and revenue curves for a firm.

Which output level will enable a firm to achieve its objective of maximising its revenue?



- 5 Oligopoly firms seek to maximise profits.

How will this affect the pricing behaviour of oligopoly firms involved in a non-collusive market?

- A** A price is fixed for the product that never changes throughout its life cycle.
- B** Firms will agree on the level of advertising costs for a new product.
- C** If one firm raises its price, other firms will maintain their original price to increase their market share.
- D** If one firm lowers its price, other firms will increase their price.
- 6 An economic activity definitely creates a net social benefit when the value of social benefit minus
- A** private benefit is zero.
- B** private benefit is negative.
- C** social cost is positive.
- D** social cost is negative.
- 7 Which assumption is essential for a market to be contestable?
- A** The market is supplied by a large number of firms.
- B** Firms are free to enter and leave the market.
- C** Firms cannot earn abnormal profits in the short run.
- D** Firms produce differentiated goods.

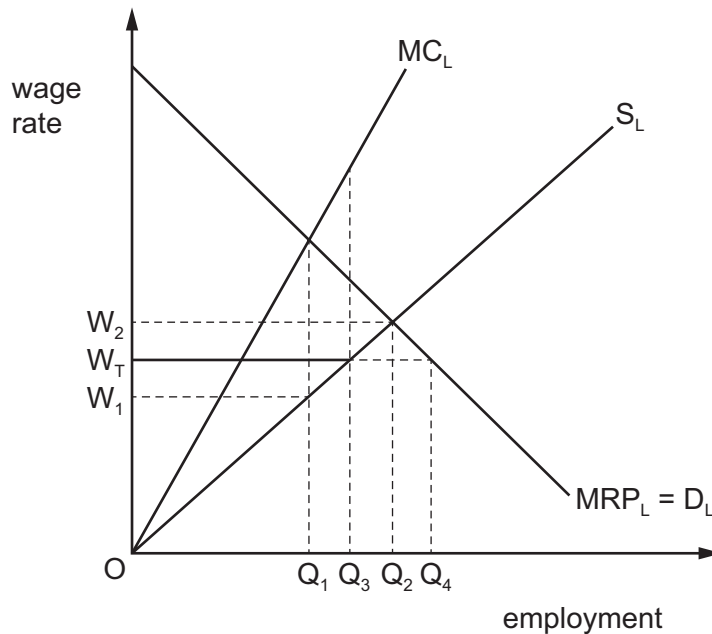
- 8 A firm that raises capital through a share issue has to satisfy both shareholders' expectations and management aims. The management aims to produce at a non-profit maximum output.

Which strategy would necessarily prevent this aim?

- A fixing output where  $MC = MR$  in the long run
  - B operating price discrimination to maximise revenue
  - C rewarding shareholders more than returns to innovation
  - D separating ownership and control of the firm
- 9 A major UK chemical firm was bought by its rival, a Dutch chemical firm.
- What definitely occurred when the Dutch firm bought the UK firm?
- A a partnership
  - B economies of scale
  - C horizontal integration
  - D increased profits
- 10 Which statement is correct for a firm classed as a natural monopoly?
- A It will always operate in the public sector and earn normal profits.
  - B It will have high barriers to entry and be the dominant producer.
  - C It will easily benefit from external economies of scale.
  - D It will have higher average costs than a monopolistically competitive firm.
- 11 The government can use policies to try and reduce the environmental damage caused by the amount of rubbish (garbage) created by firms and households.
- Which policy to reduce rubbish is most likely to lead to government failure?
- A an incentive payment for firms who reduce the levels of rubbish
  - B a tax on the amount of rubbish a firm or household creates
  - C an advertising campaign about the problems created by rubbish
  - D government grants to firms researching how to safely dispose of rubbish

- 12 What would supporters of a nationalised public transport service expect to be the most likely outcome from the privatisation of train and bus services?
- A fewer destinations served by trains and buses
  - B lower fares
  - C more frequent services to all destinations
  - D more people employed in public transport services
- 13 What will cause a household to be caught in the poverty trap?
- A A household earns less than the international poverty line of \$2.15 per person per day.
  - B A household spends more than it earns in a month.
  - C A household's earnings rise at a lower rate than the rise in inflation.
  - D An extra dollar earned by a household causes a greater loss in government benefit payments.
- 14 What will cause an outward shift in the demand for labour curve?
- A a decrease in the top rate of income tax
  - B an increase in the demand for the final product
  - C an increase in subsidies to firms
  - D an increase in the size of the working population

- 15 The diagram shows what happens when the employees of a profit-maximising monopsonist employer form a trade union and successfully negotiate a wage rate of  $OW_T$ .



What is the effect of the new wage rate on employment?

- A** It falls from  $OQ_2$  to  $OQ_1$ .
- B** It falls from  $OQ_2$  to  $OQ_3$ .
- C** It rises from  $OQ_1$  to  $OQ_3$ .
- D** It rises from  $OQ_1$  to  $OQ_4$ .
- 16 A world financial crisis was partly linked to the actions of commercial banks.
- Which actions of the commercial banks could have led to the financial crisis?
- A** being subject to tight controls by the central bank over credit creation
- B** holding reserves above the reserve ratio agreed with the central bank
- C** taking excessive risks by demanding insufficient security from borrowers
- D** widening the gap in favour of a bank's assets over liabilities
- 17 What is most likely to result from a decrease in the natural rate of unemployment?
- A** a decrease in government expenditure on goods and services
- B** a decrease in the level of government payments to the unemployed
- C** a decrease in trade union membership
- D** a decrease in interest rates

- 18 The table gives the percentage (%) rates of youth unemployment and total unemployment in France and the UK in 2001 and 2005.

	France		UK	
	youth unemployment (%)	total unemployment (%)	youth unemployment (%)	total unemployment (%)
2001	19.2	8.7	12.0	5.2
2005	22.1	10.1	12.5	4.8

What can be concluded from the table?

- A** France and the UK experienced the same trends in unemployment.
- B** France had a higher number of unemployed people than the UK.
- C** The UK used a different definition of unemployment from France.
- D** The UK was more successful than France in controlling unemployment.
- 19 What is a necessary assumption of the Keynesian multiplier model?
- A** increasing average propensity to save
- B** flexible costs and prices
- C** full employment of resources
- D** open economies
- 20 The table shows the relationship between inflation and unemployment in Germany from 2019 to 2022.

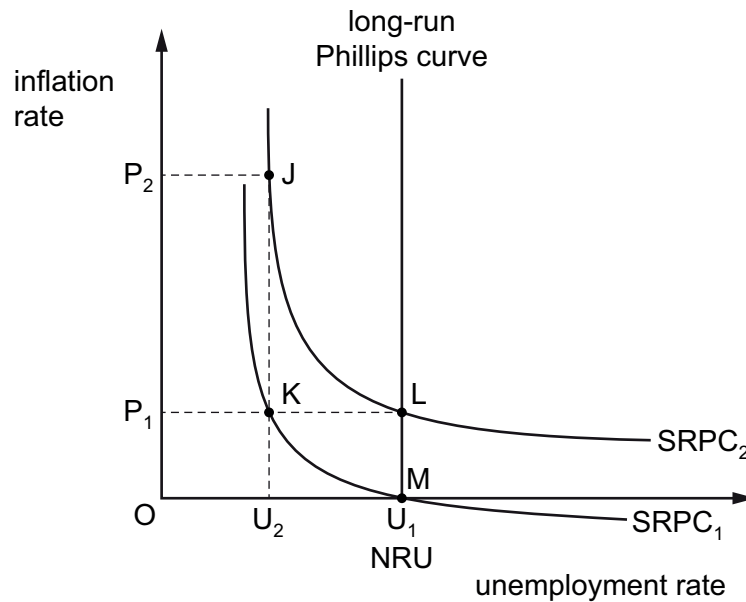
	2019	2020	2021	2022
inflation: annual variation (%)	-1.9	-1.6	2.7	2.6
unemployment rate (%)	6.4	6.1	5.7	5.2

Some theories argue that inflation rates are at their lowest when the rate of unemployment is low.

Which year contradicts this expectation to the greatest extent?

- A** 2019                      **B** 2020                      **C** 2021                      **D** 2022

- 21 The diagram represents the short-run Phillips curves  $SRPC_1$  and  $SRPC_2$  and the long-run Phillips curve in an economy, where  $NRU$  is the natural rate of unemployment. The economy is originally in equilibrium with no inflation.



If the government introduces a fiscal stimulus to reduce unemployment, monetarists predict that there will be a series of movements before long-run equilibrium is restored.

Which set of movements illustrates this prediction?

- A J to K to L      B L to K to J      C M to K to J      D M to K to L
- 22 An economy has a sudden increase in inflation caused by a large rise in energy prices. It also enters a recession with rising unemployment.

A decrease in which policy variable is most likely to reduce the impact of the recession without increasing the price level further?

- A direct taxation  
 B government spending  
 C indirect taxation  
 D interest rate
- 23 What is **not** a threat to globalisation?
- A rising fear of losing jobs to immigrant workers  
 B rising political tensions among major economies of the world  
 C stronger trade unions in industries producing substitutes of imports  
 D withdrawal of government support for inefficient industries



24 Singapore has one of the highest population densities in the world. It discourages car use through a high tax on second cars.

Which additional policy would help to relieve road congestion in the short run?

- A limiting the total number of car licences issued
- B encouraging restrictions on the size of families
- C improving infrastructure by building new roads
- D replacing diesel cars by electric cars

25 What is **not** an example of an expenditure-reducing policy?

- A a decrease in government spending
- B a depreciation of the exchange rate
- C an increase in direct taxes
- D an increase in interest rates

26 What does the J-curve effect show?

- A A successful currency depreciation requires the sum of the import and export elasticities of demand to be greater than 1.
- B After a currency devaluation, the current account is likely to get worse before it gets better.
- C In the short run, the demand for imports and exports tends to be price elastic.
- D The value of the terms of trade will affect the success of a currency's devaluation.

27 What is the most likely consequence of an increase in the number of multinational companies?

- A a decrease in advancements in technology
- B a decrease in foreign direct investment
- C an increase in exports
- D an increase in unemployment

28 The table shows the GDP and population of four countries.

Which country is most likely to have the lowest standard of living?

	country	GDP US\$ billion	population million
<b>A</b>	Bangladesh	206.7	153.5
<b>B</b>	India	2989.1	1147.9
<b>C</b>	Nigeria	292.7	138.3
<b>D</b>	South Africa	467.1	43.8

29 What will increase the size of a country's optimum population?

- A** a rise in the birth rate
- B** a lowering of the age of retirement
- C** a rise in the stock of capital available in the country
- D** a decrease in the productivity of the country's industries

30 The table shows the values of the Gini coefficient for some countries in a given year.

	Gini coefficient
Namibia	74.3
Zambia	50.4
France	32.7
Denmark	24.7

Using this information, which statement is correct?

- A** Income is distributed more equally in Denmark than France.
- B** Income is distributed more equally in Namibia than Zambia.
- C** Income per capita is higher in Zambia than Namibia.
- D** There are proportionally more people below the poverty line in Zambia than France.



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