Cambridge International Education

Cambridge International AS & A Level

ECONOMICS **9708/32**

Paper 3 A Level Multiple Choice **May/June 2026**

1 hour 15 minutes

4116471825

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 or tape.
- 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 When do consumers maximise utility under the equi-marginal principle?

A When each additional unit of a product consumed decreases by equal amounts.

B When the average utility per dollar spent is the same for each product.

C When the marginal utility per dollar spent is the same for each product.

D When the total utility for each product consumed is the same.

2 What is a likely reason for a firm to remain small?

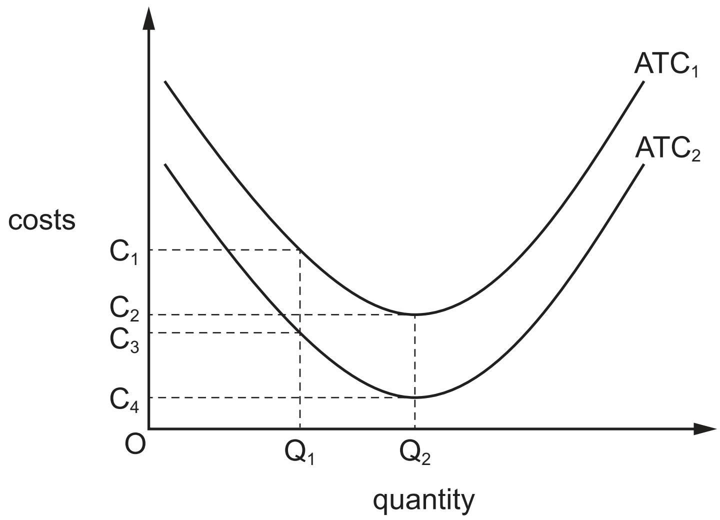
A to diversify the product range offered to consumers

B to decrease average fixed costs

C to increase market share

D to provide better customer service

3 A firm is located in an industrial area of a city. The diagram shows the average total cost (ATC) curves for this firm. The firm is initially producing on ATC_1 at an output of Q_1.



What is the most likely effect of improved transport infrastructure to this industrial area on the firm's average total costs?

A It falls to C_2.

B It falls to C_3.

C It falls to C_4.

D It is unchanged at C_1.

4 The table shows the marginal costs and benefits of the last unit of output produced for four goods **A**, **B**, **C** and **D**.

Which good is **not** causing market failure?

	marginal private cost ($)	**marginal external cost ($)**	**marginal private benefit ($)**	**marginal external benefit ($)**
A	10	5	10	0
B	10	5	5	10
C	10	10	15	10
D	15	0	10	10

5 What must be found in two markets for price discrimination to be profitable?

A different price elasticities of demand

B different price elasticities of supply

C different producers

D different products

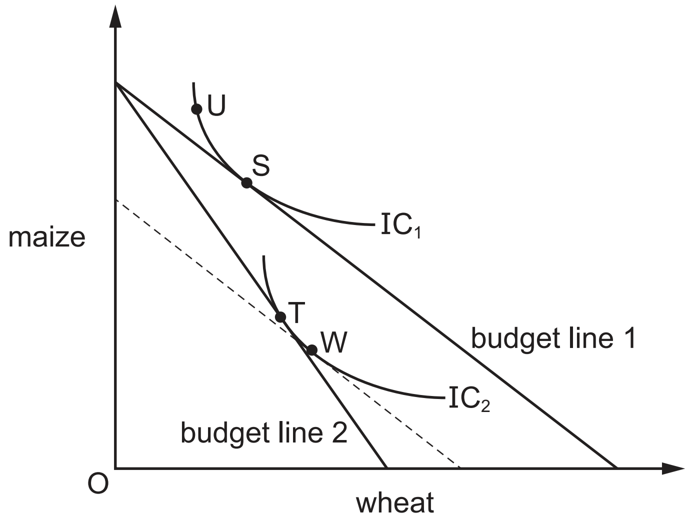
6 The table contains information about a perfectly competitive firm which produces where marginal cost equals marginal revenue.

sale price per unit	$2
variable cost per unit	$1.50
fixed cost per month	$5000
output produced and sold per month	20 000 units

By how much would the monthly profit of the business change in the short run if it chooses to shut down immediately?

A $5000 **B** $10 000 **C** $15 000 **D** $40 000

7 The diagram uses indifference curves and budget lines to examine the impact of a change in the price of wheat. A change in price shifts the consumption of maize and wheat from S to T.



Which combination of statements correctly explains what the diagram shows?

	statement 1	statement 2
A	the price of wheat has decreased	the substitution effect is shown by the shift from S to U
B	the price of wheat has increased	wheat is a normal good
C	wheat is a Giffen good	the income effect is shown by the shift from S to W
D	wheat is a Giffen good	the substitution effect outweighs the income effect

8 What is economic rent?

A The amount paid above the lowest wage that is needed to keep a worker in employment.

B The difference in pay between workers with comparable skills in different industries.

C The difference in pay between workers with different skills.

D The lowest wage that is needed to keep a worker in employment.

9 The government of a country wants to achieve a more equitable distribution of income.

Which combination of measures would be effective in achieving this aim?

	tax-free income allowance	welfare benefits
A	decrease	reduce means-tested benefits
B	decrease	reduce universal benefits
C	increase	increase means-tested benefits
D	increase	increase universal benefits

10 What is an advantage of a 'creation of property rights' solution to externalities resulting from river pollution?

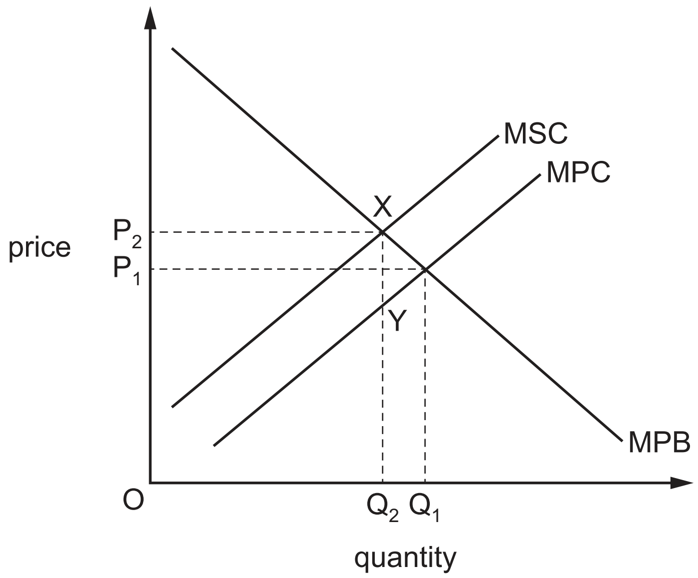
A It allows the possibility of a claim for compensation to those harmed.

B It always makes the polluter pay for pollution caused.

C It results in better monitoring by the government of the damage from pollution.

D It will eliminate pollution completely.

11 A chemical firm produces toxic fumes that impose costs on society. The diagram shows the free market equilibrium of the firm's product at P_1Q_1.



The government imposes a tax on the firm of XY.

How would this improve resource allocation?

A It will internalise the external benefit.

B It will internalise the external cost.

C It will internalise the private benefit.

D It will internalise the private cost.

12 What would help a trade union to negotiate an increase in the wage rate of its members **without** causing a reduction in the numbers employed?

A if labour costs are a major proportion of total costs

B if the demand for the labour employed is elastic

C if the demand for the good produced is elastic

D if the demand for the good produced is increasing

13 Which statement relating to the distinction between broad and narrow money is correct?

A Both broad and narrow money can be used as a store of value.

B Broad money includes all financial assets that individuals can trade.

C Governments exercise direct control over narrow money, but have no influence over broad money.

D Narrow money consists of coins and notes only.

14 The quantity theory of money states that MV = PT.

What does T represent?

A total amount of tax revenue

B total amount of trade

C total value of transfer earnings

D total volume of transactions

15 An economy had a large negative output gap and C + I + G + X – M was less than full employment potential.

What was the likely type of unemployment?

A cyclical

B frictional

C seasonal

D voluntary

16 In a closed economy, households pay $0.20 in tax on every $1 increase in their gross income, and spend $^{3}/_{4}$ of every increase in their disposable income.

What is the value of the multiplier?

A 2 **B** $2^{1}/_{2}$ **C** 3 **D** 6

17 What is **not** likely to increase the natural rate of unemployment?

A technological developments leading to a mismatch between the skills of workers and the requirements of employers

B the introduction of minimum wage legislation

C workers delaying searching for jobs because they have enough savings

D workers losing their jobs because of a general decline in economic activity

18 An economy experiences an increase in employment, unemployment and real GDP.

What is most likely to explain this outcome?

A The deflationary gap has narrowed.

B The economy is experiencing actual as well as potential growth.

C The economy is operating further away from its potential output.

D There has been a net outward migration of the adult population.

19 Pessimistic consumers and entrepreneurs hoard cash rather than spend or invest even when the rate of interest has become very low.

What does this describe?

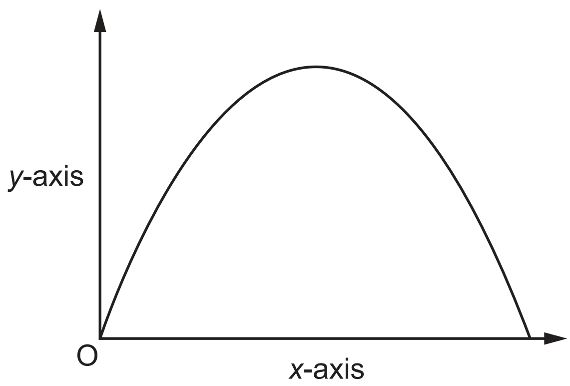
A reserve ratio

B the liquidity trap

C the marginal propensity to save

D the quantity theory of money

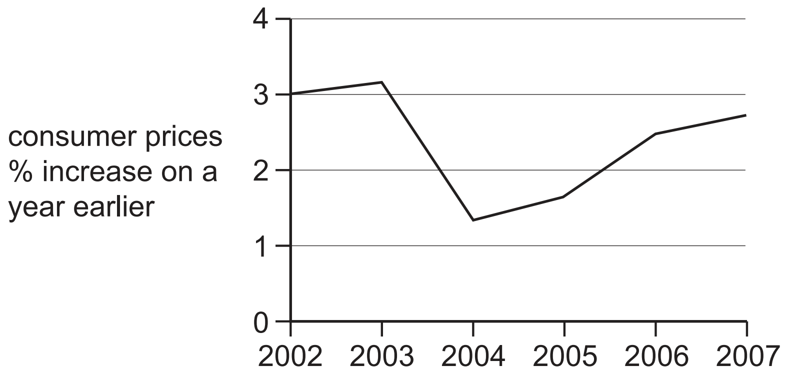
20 The diagram shows the Laffer curve.

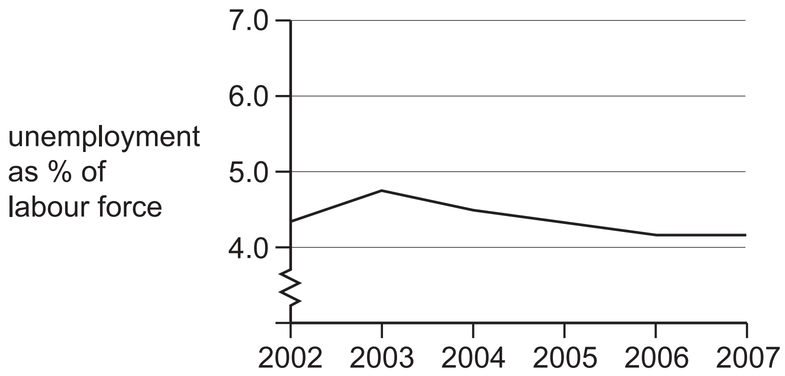


Which combination correctly identifies the labels on the axes?

	horizontal (*x*) axis	vertical (*y*) axis
A	cumulative percentage of income	cumulative percentage of tax revenue
B	income inequality	per capita income
C	tax rate	tax revenue
D	tax revenue as a percentage of GDP	tax rate as a percentage of GDP

21 The graphs show consumer prices and unemployment for a country between 2002 and 2007.





What can be concluded from the graphs?

A Between 2003 and 2004, unemployment and prices moved in the same direction.

B Prices were at their lowest in 2004.

C Prices rose continuously over the period.

D The number of unemployed workers fell over the period.

22 Other things being equal, what is likely to result from a reduction in interest rates in a country?

A an appreciation of the country's currency

B a decrease in consumption

C a decrease in investment

D an outflow of short-term capital

23 What is most likely to decrease as a result of two years of falling real GDP?

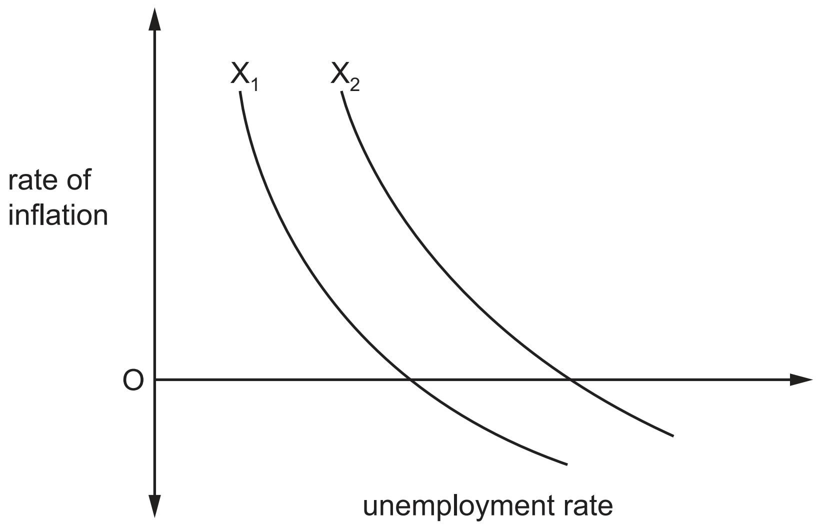
A cyclical unemployment

B demand for exports

C demand-pull inflation

D output per worker per hour

24 In the diagram, the curve X_1 shows an economy's initial trade-off between inflation and unemployment.



What does the shift of the curve from X_1 to X_2 show?

A an increase in the natural rate of unemployment

B a decrease in the money supply

C the expectation of a decrease in the inflation rate

D an increase in the rate of interest

25 Which action is open to a government to control the rate of decline in the value of the currency and improve the current account of the balance of payments?

A allow the currency to float on the foreign exchange market

B move from a floating exchange rate to a fixed exchange rate lower than current value

C reduce government spending on subsidies to exporters

D repay debts to foreigners from its exchange reserves

26 'A depreciation of a country's currency leads initially to a worsening of its trade balance.'

What helps to explain this?

A The demand for domestic exports is price elastic.

B The demand for domestic imports is price elastic.

C The supply of domestic exports is price elastic.

D The supply of domestic exports is price inelastic.

27 The data shows figures extracted from the 2020 UN Human Development Report.

country	GNI per capita (PPP $)	Human Development Index
US	63 826	0.926
Australia	48 085	0.944

What could be concluded from the data?

A Australia has a higher living standard than the US.

B Australia has a lower inflation rate than the US.

C The US has a bigger population than Australia.

D The US has a greater national income than Australia.

28 One year, the World Bank gave a loan of $650 million to Angola to help stabilise the economy. The Bank said Angola needed to have a fiscal policy that would encourage the diversification of its economy.

Which policy would be consistent with this requirement?

A the lowering of interest rates to encourage investment in solar power

B the relaxing of regulations to allow the development of a new hydropower project

C the spending of the loan supporting its existing oil industry after oil prices collapsed

D the subsidising of a partnership with a French company to establish a chain of tourist hotels

29 What is **most** likely to happen as a country develops?

A The proportion of the workforce employed in the service sector will increase.

B The average age will decrease.

C The birth rate will increase.

D The occupational mobility of labour will decrease.

30 If a country succeeds in attracting foreign direct investment in a single year, what is the result on its balance of payments in the short run and long run?

	short run	**long run**
A	a credit in the current account	a debit in the financial account
B	a debit in the current account	a credit in the financial account
C	a credit in the financial account	uncertain in the current account
D	uncertain in the financial account	a credit in the current account