CAMBRIDGE
International Education

Cambridge International AS & A Level

ECONOMICS **9708/34**

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

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 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. Any blank pages are indicated.

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1 The table shows some of the characteristics of a market.

characteristic	description
number of buyers and sellers	many
type of product	differentiated
barriers to entry	few
short-run equilibrium	supernormal profits or losses
long-run equilibrium	normal profits

Which market structure is this?

A oligopoly

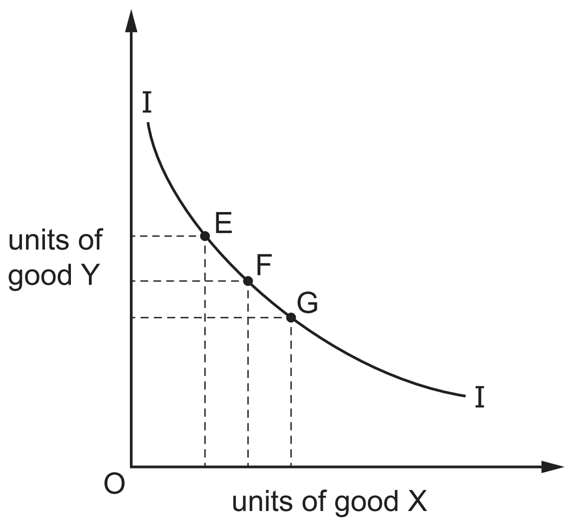
B monopolistic competition

C monopoly

D perfect competition

2 To analyse a consumer's preferences, an indifference curve represents possible combinations of goods X and Y.

The diagram shows a consumer's indifference curve for good X and good Y.



What can be concluded from the diagram?

A Point E is the most desirable combination.

B Point F is less desirable than point G.

C Point G is the least desirable combination.

D Points E, F and G are equally desirable combinations.

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3 In the short run, a firm produces an extra unit of output.

Which of the firm's production costs will change?

A fixed cost only

B fixed cost and variable cost

C variable cost only

D variable cost and total cost

4 Two US chemical production firms merged.

What is the likely benefit to the US chemical industry of this merger?

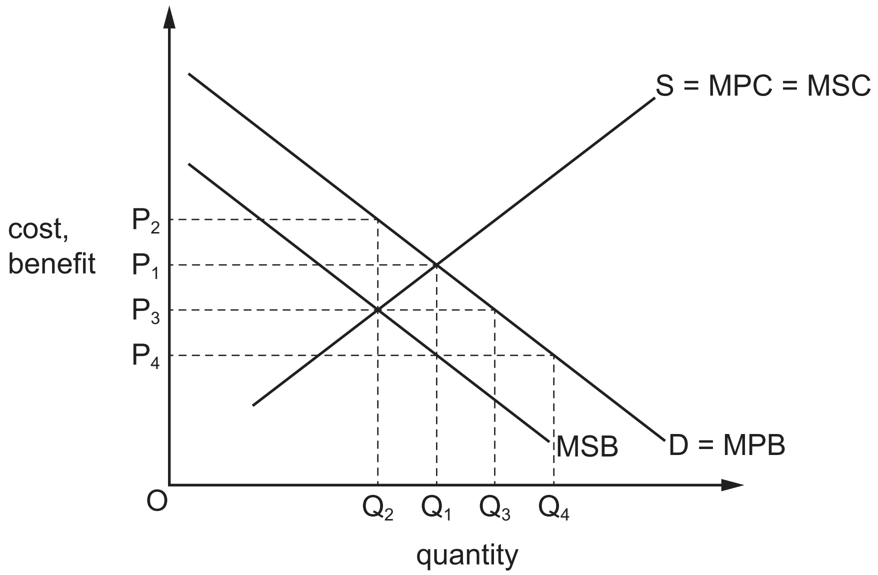
A there will be an increase in competition

B there will be an increase in the price elasticity of supply

C there will be greater technical economies of scale

D there will be less government regulation needed

5 The diagram shows the market for a good that causes a negative consumption externality. The initial equilibrium is P_1Q_1.



Which government measure will correct the market failure caused by this externality?

A a per unit indirect tax of P_1P_2

B a per unit indirect tax of P_2P_3

C a per unit producer subsidy of P_1P_3

D a per unit producer subsidy of P_1P_4

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6 The minimum efficient scale of firms in an industry has risen.

What is likely to have happened to the number of firms and the concentration ratio in the industry to have caused this change?

	number of firms	**concentration ratio**
A	decreased	decreased
B	decreased	increased
C	increased	decreased
D	increased	increased

7 A firm benefits from dynamic efficiency in the long run.

What is the most likely effect of this on the firm's long-run average cost (LRAC) curve?

A downward shift

B movement to the left

C movement to the right

D upward shift

8 What would **not** cause government failure?

A a lack of information

B the economy is in recession

C political pressures

D unintended consequences

9 A producer of a good causes pollution.

When will a specific tax on the production of the good be most effective in reducing output?

A when there is price elastic demand and price elastic supply

B when there is price elastic demand and price inelastic supply

C when there is price inelastic demand and price elastic supply

D when there is price inelastic demand and price inelastic supply

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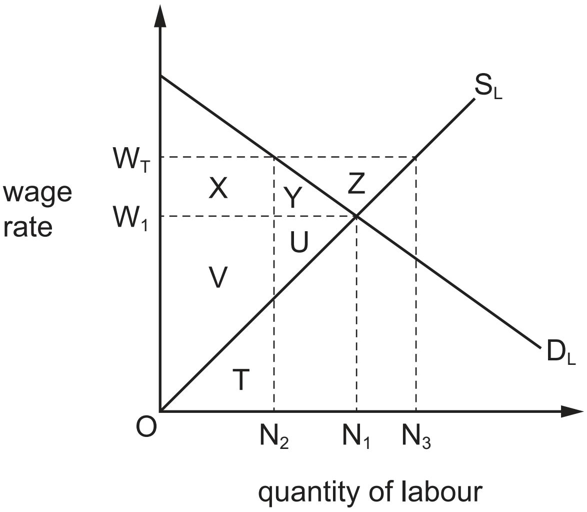
10 Under which income tax and benefits system is a poverty trap unlikely to occur?

	income tax	**benefits**
A	progressive	means-tested
B	progressive	universal
C	proportional	means-tested
D	proportional	universal

11 The diagram shows the demand and supply curves of a perfectly competitive labour market.



What will the economic rent be if a trade union successfully negotiates a wage rate of W_T?

A T + V + X **B** V + U **C** V + X **D** X + Y + Z

12 The market for farm workers is perfectly competitive.

Which change is likely to increase the wage rate **and** employment of farm workers in the short run?

A a decrease in the demand for farm products

B a decrease in the number of farm workers retiring

C an increase in the immigration of farm workers

D an increase in the price of farm products

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13 A country introduces a national minimum wage (NMW) of $10 per hour.

In which industry is the NMW likely to cause the most unemployment?

	equilibrium wage rate before NMW ($ per hour)	**wage elasticity of demand for labour**	**wage elasticity of supply of labour**
A	8	>1	>1
B	8	<1	<1
C	9	>1	>1
D	10	>1	>1

14 What is **not** a necessary characteristic of money?

A easy to carry

B generally acceptable

C relatively limited in supply

D useful in its own right

15 What is included in 'narrow money'?

	notes and coins in circulation	**current (checking) account deposits**	**banks' liquid assets at the central bank**	**savings account**
A	✓	✓	✓	✗
B	✓	✓	✗	✗
C	✓	✗	✗	✗
D	✗	✗	✓	✓

16 What would result in an increase in the volume of bank deposits?

A an increase in the public's desire to hold cash

B an increase in government expenditure financed by borrowing from the central bank

C an increase in the proportion of their deposits that banks hold in cash

D an open market sale of securities by the central bank

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17 What is most likely to result in sustainable economic growth?

A planting trees to replace those that are being cut down for wood and timber production

B removal of rainforests to create grazing land for animals to help meat production

C the use of fertilisers for better crop yields that harden the soil and reduce fertility

D the use of finite resources instead of renewable resources

18 What will reduce the value of the investment multiplier?

A lower marginal propensity to import

B automatic stabilisers

C a reduction in marginal tax rates

D a reduction in the level of unemployment benefits

19 In a closed economy with no government, the full employment level of income is \$400 billion and the equilibrium level of income is \$350 billion.

If the deflationary gap is \$10 billion, what is the marginal propensity to consume?

A $\frac{1}{5}$ **B** $\frac{1}{4}$ **C** $\frac{3}{4}$ **D** $\frac{4}{5}$

20 Over a given period, money income in an economy increased by 6%. Over the same period, prices rose on average by 3%.

What can be deduced from this?

A The velocity of circulation of money is equal to two.

B The velocity of circulation of money remained unchanged.

C The money supply increased by 9%.

D The volume of output increased by 3%.

21 An economy is in macroeconomic equilibrium. Private sector investment is equal to private sector saving but the current account of the balance of payments is in deficit.

What can be deduced from this?

A Consumption is being financed partly by residents' net borrowing from banks.

B The central bank is accumulating additional reserves of foreign currency.

C The government has a fiscal deficit financed by borrowing from foreign countries.

D There was a net outflow of capital to foreign countries.

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22 Which policy pursued by a central bank represents a contractionary monetary policy?

A a reduction in the interest rate at which it will lend to banks

B a reduction in the minimum cash to deposit ratios of banks

C the purchase of foreign currency to influence the country's exchange rate

D the sale of government bonds in the open market

23 What is the likely impact when a country's rate of inflation is greater than that of its competitors?

A a decrease in unemployment in the country

B a depreciation of the country's exchange rate

C an increase in the country's competitiveness

D an increase in demand for the country's exports

24 The table shows the marginal propensity to consume (mpc) and the sum of the price elasticity of demand for imports and exports ($PED_m + PED_x$).

A government devalues its currency with the aim of reducing **both** a balance of payments deficit on its current account **and** a high level of unemployment.

Which combination would be most likely to achieve this?

	mpc	**$PED_m + PED_x$**
A	0.6	0.8
B	0.6	1.6
C	0.8	0.8
D	0.8	1.6

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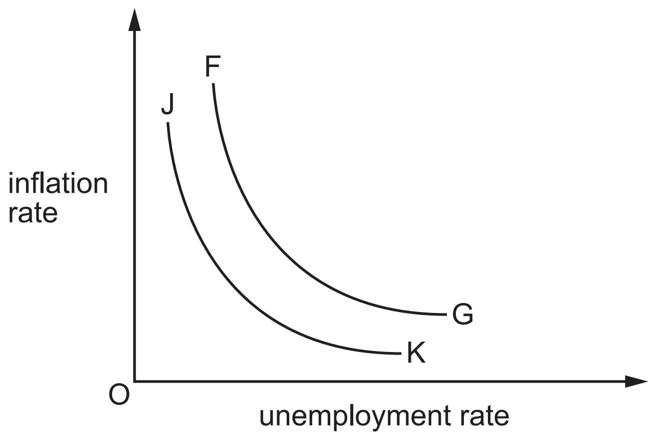
25 The diagram shows the relationship between the rate of inflation and the rate of unemployment.



What would cause the curve FG to shift to JK?

A a lower exchange rate

B a lower expected rate of inflation

C an increase in government expenditure

D a rise in the level of employment

26 In 2023, New Zealand had a real Gross Domestic Product per capita of $47 046.

Why might this figure **not** be a good indicator of living standards?

A Foreign trade is **not** included in the figure.

B It does **not** take into account changes in population.

C It does **not** take into account inflation.

D It does **not** take into account the wide differences in the distribution of income.

27 A country devalues its currency on the foreign exchange market.

Its current account balance on the balance of payments worsens in the short run, but improves in the long run.

What does this illustrate?

A the J curve

B the Kuznets curve

C the Laffer curve

D the Lorenz curve

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28 It has been estimated by the United Nations that the total external debt of developing countries has been increasing by about $425 billion each year.

What is likely to have contributed to this?

A reduced foreign direct investment into the developing country

B increased government subsidies for tourism in the developing countries

C withdrawal of multinational companies due to delays in the award of government contracts

D worsening of the current account deficit with developed economies

29 What is **not** a role of the International Monetary Fund (IMF)?

A to increase the growth of international trade

B to promote exchange rate stability

C to provide funds to low income countries in order to reduce poverty

D to provide resources to members having difficulties with the balance of payments

30 The African Union (AU) consists of 55 countries of Africa, but only 18% of total trade of the AU is between countries in Africa.

If the AU decides to co-operate on trade policy, what would make the greatest change to this situation?

A establishing an economic union with common macroeconomic aims

B introducing a monetary union and use a common currency

C maintaining comparative advantage in a free trade zone

D setting up a customs union with a common external tariff

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