UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Ordinary Level

ECONOMICS **2281/11**

Paper 1 Multiple Choice **May/June 2011**

1 hour

Additional Materials: Multiple Choice Answer Sheet
Soft clean eraser
Soft pencil (type B or HB is recommended)

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READ THESE INSTRUCTIONS FIRST

Write in soft pencil.
Do not use staples, paper clips, highlighters, glue or correction fluid.
Write your name, Centre number and candidate number on the Answer Sheet in the spaces provided unless this has been done for you.

There are **forty** 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 separate Answer Sheet.

Read the instructions on the Answer Sheet very carefully.

Each correct answer will score one mark. A mark will not be deducted for a wrong answer.
Any rough working should be done in this booklet.

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UNIVERSITY of CAMBRIDGE
International Examinations

[Turn over

1 What is meant by the economic problem?

A how to achieve efficiency with the existence of fixed resources and limited wants

B how to allocate resources between public and private sectors

C how to balance unlimited wants against finite resources

D how to decide which methods to use to exploit all resources

2 Each of the factors of production earns an income.

What are the incomes for land and capital?

	land	capital
A	rent	interest
B	rent	profit
C	wages	interest
D	wages	profit

3 A firm decides to stop manufacturing ovens and to produce washing machines instead.

What is the opportunity cost to the firm?

A the additional washing machines produced

B the cost of producing ovens

C the cost of producing washing machines

D the loss of the production of ovens

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4 The table shows how employment in selected industries changed in a country between 2000 and 2010.

	year 2000 (thousands employed)	year 2010 (thousands employed)
extraction of minerals	1278	794
manufacturing	3102	2128
banking and finance	1336	1881
distribution and catering	3678	4323

Which statement about these industries during this period is correct?

A Employment in the primary industries decreased.

B Employment in the secondary industries increased.

C Employment in the tertiary industries decreased.

D Employment in the tertiary industries was less than the secondary industries.

5 What is an advantage of the market economic system?

A It aims for equality of income.

B It ensures the provision of defence and law and order.

C It gives an incentive to produce.

D It reduces pollution and congestion.

6 Which pair of economic institutions can be found in a market economy?

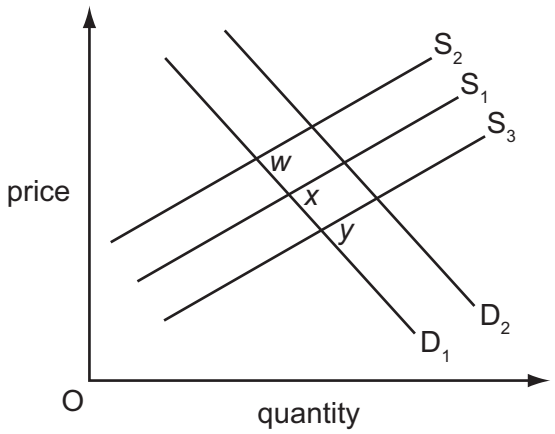
A commercial banks and public companies

B public corporations and partnerships

C public corporations and private companies

D stock exchange and local government schools

7 Due to changes in the costs of production, an industry's supply curve shifted at various times from S_1 to either S_2 or S_3.



If a shift in supply was due to a seasonal increase in the cost of raw materials, what would have been the effect on demand?

A The demand curve would move from D_1 to D_2.

B The quantity demanded would move from *x* to *w*.

C The quantity demanded would move from *x* to *y*.

D The quantity demanded would remain the same at *x*.

8 The table shows the changes in two influences on the demand for and supply of televisions.

If these two changes occurred at the same time, in which case is it **impossible** for the price of televisions to rise?

	consumers' incomes	costs of production
A	fall	fall
B	fall	rise
C	rise	fall
D	rise	rise

9 In a country where the demand for petrol (gas) is price-inelastic, the incidence of any increase in petrol tax will be mainly on

A the company that refines the oil.

B the motorist who buys the petrol.

C the petrol station that sells the petrol.

D the wholesale company that stores the petrol.

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10 What is an example of market failure?

A a growth of competition

B an existence of scarcity

C a spread of pollution

D a surplus of production in the short-term

11 Which action by the operators of an airport directly reduces external costs?

A the stopping of night flights

B the building of a new runway

C the payment of a productivity bonus

D the reduction of charges for landing aircraft

12 What may cause an individual to save a higher proportion of their income?

A a belief that the price of goods will rise in the future

B a fall in the rate of interest paid by the country's banks

C a fear that income will fall in the future

D a rise in the individual's wish to enjoy higher consumption immediately

13 A person wishes to buy shares in order to make a long-term profit, but wants as little risk of short-term loss as possible.

Which type of share is **most** likely to meet these wishes?

A a share in a coffee growing company

B a share in a fashion house

C a share in a high-tech electronics company

D a share in a supermarket chain

14 Which statement about a country's banks is correct?

A Commercial banks hold the financial accounts of the government.

B Commercial banks settle debts by clearing customers' cheques.

C The central bank sets the government's tax and spending policies.

D The central bank supplies foreign currency to members of the public.

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15 Why might factory workers have higher wage rates than agricultural workers?

A Factory workers are in greater supply.

B Factory workers face fewer risks of accidents.

C Factory workers have cleaner working conditions.

D Factory workers use more productive equipment.

16 What is the main purpose of a trade union?

A to achieve profit maximisation

B to encourage free trade

C to promote private ownership of industry

D to protect the interests of its members

17 A musician has a choice of playing for an orchestra in either England or Germany.

Which combination of incomes and cost of living is **most** likely to cause her to choose the German orchestra?

	Incomes and cost of living in Germany compared with those in England		
	pre-tax (gross) income	after-tax (net) income	cost of living
A	higher	higher	higher
B	higher	lower	lower
C	lower	higher	higher
D	lower	higher	lower

18 What is an advantage of small-scale production?

A diseconomies of scale

B division of labour

C flexible production

D spreading of overheads

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19 A major computer company announced that its profits had fallen below the level predicted.

What might have caused this?

A increased advertising costs that greatly improved sales

B low prices that made the company's product competitive

C new technology that reduced costs

D reduced sales and low prices

20 A firm raised the price of its product from $10 to $15 and as a result its sales fell from 200 units to 150 units.

What happened to its average revenue and total revenue?

	average revenue	total revenue
A	decreased	decreased
B	decreased	increased
C	increased	decreased
D	increased	increased

21 Which change must occur when a firm starts to experience diseconomies of scale?

A Average costs begin to rise.

B Employees are made redundant.

C Profits turn into losses.

D Variable costs become fixed.

22 If a firm increases its output in the short run, what will happen to its average fixed cost (AFC)?

A AFC will decrease continually.

B AFC will equal zero.

C AFC will increase then decrease.

D AFC will increase continually.

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23 Cathay Pacific, Hong Kong's largest airline, flies to a number of countries.

Shares in the firm are owned by both individuals and other firms in a number of countries. The shares are traded on the Hong Kong Stock Exchange.

Which type of business organisation is Cathay Pacific?

A a partnership

B a private limited company

C a public corporation

D a public limited company

24 Which statement is **most** likely to be correct?

A A direct tax benefits the government.

B An indirect tax benefits small shopkeepers.

C A progressive tax benefits successful entrepreneurs.

D A regressive tax benefits lower income earners.

25 The central bank of Mexico set its rate of interest to try to keep the rise in the price level to only 3 %.

Which government aim was it directly trying to achieve?

A balance of payments equilibrium

B economic growth

C full employment

D low inflation

26 When is a direct tax described as progressive?

A when the government changes the basic rate of tax in each budget

B when the government taxes companies rather than individuals

C when the tax takes a larger proportion of earnings as earnings increase

D when the tax takes a smaller proportion of earnings as earnings increase

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27 In 2008, the government of Argentina imposed a tax on exports of wheat and soya beans.

What was the **most** likely aim of this tax?

A to increase agricultural output

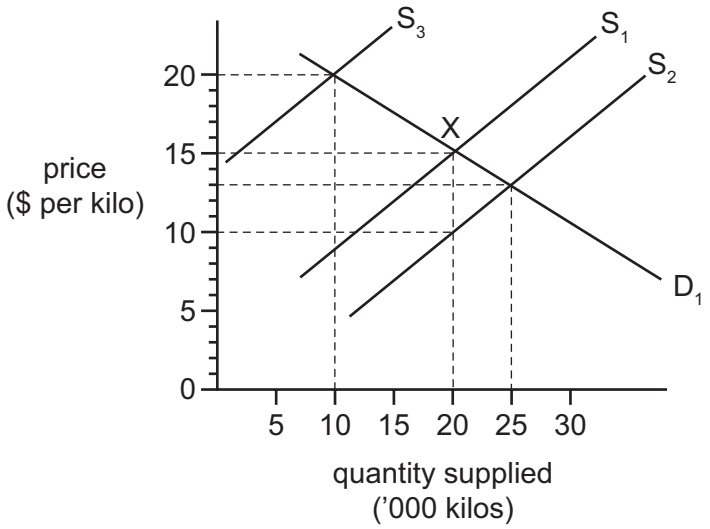
B to increase exports

C to reduce a budget surplus

D to reduce the rise in domestic food prices

28 A government gives farmers a subsidy of $5 per kilo to supply food on the open market where X is the equilibrium position.

The effect is illustrated in the diagram below.



What will be the new equilibrium price and quantity supplied as a result of the subsidy?

	equilibrium price ($ per kilo)	quantity supplied ('000 kilos)
A	10	20
B	13	25
C	15	20
D	20	10

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29 During 2009 some governments adopted policies to try to end the recession in their country and increase economic growth.

Which combination of policies is **most** likely to achieve this?

A lower taxes and decrease government spending

B lower taxes and increase government spending

C raise taxes and decrease government spending

D raise taxes and increase government spending

30 The table shows the percentage change in employment over a period for a country with three economic sectors.

economic sector	percentage (%) change in employment
agriculture	–6
manufacturing	+2
services	+4

Which statement must be correct?

A Agricultural output fell.

B The country became more developed.

C The working population stayed constant.

D Total employment remained the same.

31 Why may GDP **not** be a good measure to compare the standard of living of two countries?

A It does not include government expenditure.

B It does not take account of population size.

C It is based on a sample 'basket of goods'.

D It only compares export prices with import prices.

32 Which type of unemployment is generally regarded by economists as the **least** serious for the economy?

A cyclical

B frictional

C regional

D structural

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33 Which people are **most** likely to gain at a time of inflation?

A companies who sell abroad

B foreign tourists visiting the country

C those living on their savings

D those who are repaying borrowed money

34 What is likely to happen as a developing country becomes more developed?

A A higher percentage of children will attend school.

B Infant mortality will rise.

C Life expectancy will fall.

D The agricultural sector will increase in importance.

35 Many developed countries are faced with an ageing population.

What is the likely result of this?

A a reduced dependency ratio

B increased mobility of labour

C increased spending on medical care

D reduced tax levels

36 The table shows statistics for four countries in southern Africa.

From the information given, which country has the lowest standard of living?

	average annual growth rate of population (%)	population density per square kilometre	life expectancy	real GDP per capita (US$)
A	1.9	19	46	190
B	2.7	2	58	1700
C	3.7	45	59	210
D	4.2	89	44	190

37 Net migration is the difference in a particular year between

A the birth rate and the death rate.

B the number of people entering and leaving a country looking for temporary work.

C the number of people entering and leaving a country on a permanent basis.

D the number of tourists coming to and going from a country.

38 Which item would appear as a credit item in Pakistan's current account of the balance of payments?

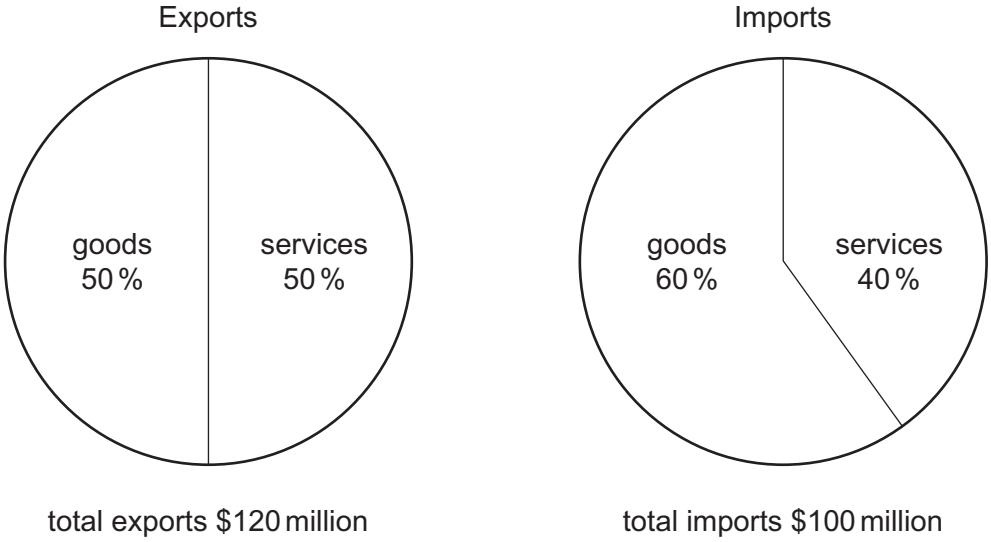
A the purchase by a Pakistani firm of oil from Nigeria

B the sale by a Pakistani firm of cotton jackets to a UK firm

C the setting up by the Chinese of a clothing factory in Pakistan

D the spending by Pakistani tourists in Abu Dhabi

39 The diagrams show the composition of exports and imports of a country.



What is true for this country?

A There was a deficit in the balance of trade in goods.

B There was a deficit in the balance of trade in services.

C There was a surplus in the balance of trade in goods.

D There was a surplus in the balance of trade in services.

40 A government may use customs barriers to restrict free trade.

What is an economic reason for doing this?

A to discourage the production of strategic goods

B to improve the balance of trade

C to increase a balance of payments deficit

D to make imports cheaper

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